

No. 16201 ✓

United States
Court of Appeals
for the Ninth Circuit

BANKLINE OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Transcript of Record

Petition to Review a Decision of the Tax Court
of the United States

FILED

FEB 19 1959

PAUL P. O'BRIEN, CLERK

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

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APPEARANCES

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MELVIN H. WILSON, By
MELVIN D. WILSON,
621 S. Hope St.,
Los Angeles, Calif.,
For Petitioner.

CHARLES K. RICE,
Asst. U. S. Attorney General;

LEE A. JACKSON,
Attorney Dept. of Justice,
Dept. of Justice,
Washington 25, D. C.,
For Respondent.

In the Tax Court of the United States

Docket No. 60671

BANKLINE OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DOCKET ENTRIES

1956

Jan. 16—Petition received and filed. Taxpayer notified. Fee paid.

Jan. 17—Copy of petition served on General Counsel.

Mar. 13—Answer filed by Resp. Served 3/21/56.

Mar. 13—Request for Circuit hearing in Los Angeles filed by Resp. Granted 3/21/56. Served 3/21/56.

1957

Sept. 3—Motion by petr. to place case on trial calendar at Los Angeles, the earliest possible date after October, 1957. 9/4/57—Granted. Served 9/5/57.

Oct. 15—Notice of trial Nov. 18, 1957, Los Angeles, Calif.

Nov. 25—Trial had before Judge Withey on merits. Stipulation of Facts and Appearance of Melvin H. Wilson, Esq., filed at hearing. Briefs due Jan. 24, 1958. Replies due Feb. 24, 1958.

Dec. 13—Transcript of hearing Nov. 25, 1957, filed.

1958

- Jan. 21—Motion by resp. for extension of time for 30 days to file brief. Granted to 2/24/58. Replies due 3/26/58. Served 1/23/58.
- Feb. 24—Brief for Petr. filed.
- Feb. 24—Brief for Resp. filed. Served 2/25/58.
- Mar. 24—Reply Brief for Petr. filed.
- Mar. 26—Reply Brief for Resp. filed. Served 3/27/58.
- May 29—Finding of Fact and Opinion filed. Judge Withey. Decision will be entered for the Resp. Served 6/3/58.
- June 5—Decision entered, Judge Withey.
- Aug. 22—Petition for Review by U.S.C.A. 9th, filed by Petr.
- Aug. 22—Proof of Service of petr. for rev. filed by Petr.
- Aug. 22—Designation of Contents of Record on Review with proof of service thereon, filed by Petr.
- Aug. 27—Designation of Additional Portion of Record on Review with proof of service thereon, filed by Resp.

[Title of Tax Court and Cause.]

PETITION

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his Notice of Deficiency, AP:LA:AA:RR:AS:LA:AS:COP 90-D,

dated October 25, 1955, and as a basis of its proceeding alleges as follows:

1. The petitioner is a corporation with principal office at 437 South Hill Street, Los Angeles 13, California. The return for the period here involved was filed with the Collector for the Sixth District of California.

2. That Notice of Deficiency (a copy of which is attached and marked Exhibit A) was mailed to the petitioner on October 25, 1955.

3. The deficiencies as determined by the Commissioner are in income tax for the calendar year 1952 in the amount of \$14,342.52 plus overpayment claimed of \$10,688.30, or a total amount involved of \$25,030.82.

4. The determination of tax set forth in the said Notice of Deficiency is based upon the following errors:

A. The respondent erred in failing to treat the \$85,000.00 received on the sale of casinghead gas contracts as long term capital gain taxable at a maximum rate of 26%.

B. The respondent erred in failing to treat as long term capital gain the further amount of \$11,-272.40 received in 1952 on the sale of casinghead gas contracts.

C. The respondent erred in failing to find that petitioner overpaid its 1952 income tax by \$10,-688.30, and that amount is legally refundable.

5. The facts upon which the petitioner relies as a basis of this proceeding are as follows:

A. Petitioner is a corporation organized under the laws of the State of California and has its office at 437 South Hill Street, Los Angeles 13, California.

B. Prior to October 29, 1952, petitioner owned land, buildings and equipment used for a casing-head gasoline plant in the Signal Hill Oil Field in Los Angeles County, California, an interest in State of California oil lease No. 421.1 in the Elwood oil-field, equipment and pipelines thereon; also an undivided interest in two 80,000-barrel storage tanks in said field, together with marine loading equipment used in connection with said tanks.

C. Petitioner also owned certain leases, gas purchase contracts and other purchase agreements entitling it to acquire on a royalty basis or to purchase casinghead gas from various oil operators in Signal Hill Oil Field.

D. In the fall of 1952 the supply of casinghead gas available to petitioner from its said leases and gas purchase contracts and other purchase contracts was insufficient to enable it to operate the said casinghead gas plant at a profit.

E. Signal Oil & Gas Company had other casing-head gas plants and contracts for the purchase of casinghead gas in and around Signal Hill, California.

F. Petitioner sold its property described in paragraph 5-B above to Signal Oil & Gas Company in the fall of 1952 for \$50,000.00, which sale is not involved in this controversy.

G. Petitioner also sold to Signal Oil & Gas Company its leases, casinghead gas purchase and other purchase contracts for the sum of \$85,000.00, plus further sums of money dependent upon the amount received by Signal Oil & Gas Company from the sale of natural gasoline and LPG products. In the contract of sale of the said gas contracts, etc., it was further provided that the agreement should remain in force and effect for the period of ten years from November 1, 1952, and thereafter so long as Signal shall elect. After ten years from November 1, 1952, should Signal desire not to receive and/or process wet gas produced from the said leases, contracts, etc., Signal should give notice to petitioner to that effect. Within thirty days after receipt of such notice petitioner, by written notice to Signal, could elect to purchase the leases, gas contracts and other purchase agreements for the sum of \$10.00 and have such leases and other agreements then remaining in effect re-assigned to it. In the event petitioner did not elect to receive such reassignments Signal could sell or assign said agreements to third parties or quit-claim, surrender or otherwise terminate all or any of them.

H. In 1952, under the terms of said contract of October 29, 1952, with Signal, petitioner received

\$85,000.00 and \$11,272.40 from the sale of said leases, casinghead gas contracts and other purchase contracts.

I. Petitioner had held said leases, casinghead gas contracts and other purchase contracts for more than six months and used the same in the operation of its business and did not hold the said contracts primarily for sale to customers in the ordinary course of its trade or business. Said contracts were depreciable in nature.

J. Petitioner had no cost for said leases, casinghead gas contracts or other purchase contracts and the amount received therefor constituted profits and should be treated as if they were long term capital gains under the provisions of Section 117 (j) of the Internal Revenue Code of 1939 in effect for the year 1952.

K. Petitioner transferred to Signal said contracts for the full useful life thereof. Consequently, it transferred its entire right, title and interest in said contracts or in its equity therein.

L. Petitioner was paying to gas producers a royalty of approximately 40% of the amounts received from natural gasoline and propane gas and dry gas. By October 29, 1952, the going rate of royalty for such products where an existing plant to process the casinghead gas was in operation, was approximately 65%, so that petitioner had a differential of around 25% as compared with current acquisitions of similar contracts.

M. Petitioner was not released from its obligations to the oil producers to pay the 40% royalty but required Signal to pay sufficient amounts to petitioner to enable the petitioner to pay the underlying 40% royalty and to receive an additional amount sufficient to constitute, when added to the \$85,000.00, the total value of the approximately 25% differential or equity in said contracts.

N. After the purchase of Signal Hill casinghead gasoline plant and the gas contracts and leases related thereto, Signal dismantled the plant but used the contracts and leases in the operation of its other casinghead gas plants in the same field.

O. Petitioner filed its 1952 income tax returns on March 25, 1953, with the Collector of Internal Revenue, at Los Angeles, California, pursuant to an extension given to file its said return by April 15, 1953.

P. Petitioner paid its 1952 income tax as follows:

On March 25, 1953.....	\$14,097.79
On June 12, 1953.....	14,097.79
On Sept. 14, 1953.....	14,097.79
On Dec. 8, 1953.....	14,097.78
	<hr/>
Total	\$56,391.00

Q. Petitioner files this petition to the Tax Court of the United States within ninety days of the deficiency letter, dated October 25, 1955.

R. The \$56,391.15 income tax paid for 1952 was paid within three years of the date (October 25, 1955) of the mailing of the notice of deficiency.

Wherefore, petitioner prays that this Court may hear the proceeding and determine:

1. That the \$85,000.00 petitioner received from the sale of the leases, casinghead gas contracts and other purchase agreements should be taxed as if it were long term capital gain.

2. That the further amount petitioner received from the sale of said leases, contracts, etc., should be taxed as if it were long term capital gain.

3. That petitioner has overpaid its 1952 income tax in the amount of \$10,688.30, and that said amount is legally refundable.

Dated this 23rd day of December, 1955.

/s/ MELVIN D. WILSON,

/s/ JOSEPH D. PEELER,

/s/ EUGENE T. GARRETT,

Counsel for Petitioner.

Duly verified.

EXHIBIT A

1250 Subway Terminal Building
417 South Hill Street
Los Angeles 13, California

Copy

Oct. 25, 1955.

Ap:LA:AA-RR
AS-LA:AS-COP
90-D

Bankline Oil Company,
437 South Hill Street,
Los Angeles 13, California.

Gentlemen:

You are advised that the determination of your income tax liability for the taxable year ended December 31, 1952, discloses a deficiency of \$14,342.52, as shown in the attached statement.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with the Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia in which event that day is not counted as the 90th

day. Otherwise Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute, in duplicate, the enclosed form and forward it to the Assistant Regional Commissioner, Appellate, 1250 Subway Terminal Building, 417 South Hill Street, Los Angeles 13, California. The signing and filing of this form will expedite the closing of your return by permitting an early assessment of the deficiency and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is the earliest.

Very truly yours,

T. COLEMAN ANDREWS,
Commissioner of Internal
Revenue.

/s/ H. L. DUCKER,

By
Associate Chief,
Appellate Division.

Enclosures:

- Statement
- Form 1276
- Agreement Form

RBoskosky :BL
5-20-55

Ap:LA:AA-RR
 Ap:LA:AS-COP
 90-D

STATEMENT

Bankline Oil Company
 437 South Hill Street
 Los Angeles 13, California

Tax Liability for the Taxable Year Ended
 December 31, 1952

Year		Liability	Assessed	Deficiency
1952	Income Tax	\$70,733.67	\$56,391.15	\$14,342.52

In making this determination of your income tax liability careful consideration has been given to the report of examination dated December 3, 1954, your protest dated February 10, 1955, and to the statements made at the conference held on April 18, 1955.

Consideration has also been given to your claim for refund of \$21,-304.18 income tax and your amended return filed on August 12, 1953. The issues set forth in your claim are allowed in part, however, since a deficiency is disclosed due to other adjustments, your claim will be disallowed.

If a petition to The Tax Court of the United States is filed against the deficiency shown herein, the unallowed issues set forth in your claim for refund should be made a part of the petition to be considered by the Tax Court in any redetermination of your tax liability. If a petition is not filed, the claim for refund will be disallowed and official notice of the disallowance will be issued by registered mail in accordance with section 3772 of the Internal Revenue Code of 1939.

A copy of this letter and a copy of the statement have been mailed to your authorized representative, Mr. Melvin D. Wilson, 621 South Hope Street, Los Angeles 17, California.

Adjustments to Net Income
 Year 1952

	Income Tax	Excess Profits
	Net Income	Net Income
Net Income as disclosed on original return.....	\$166,325.79	\$ 80,618.61
Unallowable deductions and additional income:		
(a) Ordinary income—		
gas contracts	\$85,000.00	

		Income Tax	Excess Profits
		Net Income	Net Income
(b) Abandonment loss	2,400.00		
(c) Legal expense	1,328.00		
(d) Cost depletion	1,898.80	90,626.80	90,626.80
	<hr/>		
Totals		\$256,952.59	\$171,245.41
Additional deductions and reduction:			
(e) Long-term capital gain— gas contracts	\$85,000.00		
(f) Intangible drilling costs capitalized	20,000.00		
(g) Rental expense	681.82		
(h) Amortization loss expense..	288.20	105,970.02	20,970.02
	<hr/>		
Net income as adjusted.....		\$150,982.57	\$150,275.39

Explanation of Adjustments

(a) and (e) You reported as long-term capital gain the sum of \$85,000.00 received during the taxable year from Signal Oil and Gas Company under the terms of an agreement dated November 1, 1952, providing for the processing by that corporation of wet gas from certain properties located in the Signal Oil Field District which are covered by your previous agreements with the producers.

It is held that the sum of \$85,000.00 received in the taxable year constitutes ordinary taxable income under the provisions of section 22 of the Internal Revenue Code of 1939 instead of long-term capital gain as reported on your return.

(b) Deduction of \$2,400.00 for partial abandonment of oil lease is disallowed, since no loss is recognized until such time as the entire unit is abandoned.

Explanation of Adjustments (Continued)

(c) Deduction of \$1,328.00 for legal expenses incurred in connection with reorganization is disallowed as representing an unallowable deduction.

(d) Deduction for depletion is reduced by \$1,898.80, due to the adjustment of the cost bases of Ballard leases.

	Cost Basis as Adjusted	Cost Depletion Allowed	Cost Depletion Claimed
Ballard Lease #4.....	\$4,284.26	\$1,450.82	\$2,863.24
Ballard Lease #26.....	4,286.92	486.14	972.52
		<hr/>	<hr/>
		\$1,936.96	\$3,835.76
			<hr/>
			1,936.96
			<hr/>
Adjustment			\$1,898.80

(f) In your claim for refund you claim a deduction of \$40,000.00 for intangible drilling and development expense in connection with a 50% working interest in four wells on the Ballard lease.

A deduction of \$20,000.00 is allowed for drilling costs and the balance is held to represent capital expenditure.

(g) A deduction of \$681.82 is allowed for rental expense, as claimed in your claim for refund.

(h) A deduction of \$288.20 is allowed for amortization of loan expense, as claimed in your claim for refund.

(i) Net long-term capital gain over net short-term capital loss is computed as follows:

Net long-term capital gain reported.....	\$94,440.84
Decrease—Item (e) above.....	85,000.00
	<hr/>
Net long-term capital gain as adjusted.....	\$ 9,440.84
Less: Capital loss carryover as reported.....	682.12
	<hr/>
Net amount as adjusted.....	\$ 8,758.72

Computation of Tax
Year 1952

Income Tax:

	Alternative Tax	Tax at Ordinary Rates
Net income	\$150,982.57	\$150,982.57
Less: Excess of net long-term capital gain over net short-term capital loss.....	8,758.72	
	<hr/>	
Net income as reduced.....	\$142,223.85	

	Alternative Tax	Tax at Ordinary Rates
Income subject to normal tax and surtax.....	\$142,223.85	\$150,982.57
Combined normal tax and surtax:		
52% less \$5,500.00.....	\$ 68,456.40	\$ 73,010.94
Add: 25% of \$8,758.72.....	2,277.27	
	<hr/>	
Alternative tax (lesser tax).....	\$ 70,733.67	
Tax at ordinary rates.....		\$ 73,010.94
Income tax		<u>\$ 70,733.67</u>
Excess Profits Tax:		
Excess profits net income.....		\$ 150,275.39
Less: Excess profits credit per return.....		1,316,128.51
		<hr/>
Adjusted excess profits net income.....	\$	0.00
Excess profits tax.....	\$	0.00
		<hr/>
Income tax liability.....		<u>\$ 70,733.67</u>
Income tax liability per return:		
Original, CI 5 -68, 1953 List, Los Angeles District.....		56,391.15
Deficiency of income tax.....		<u>\$ 14,342.52</u>

Received and Filed January 16, 1956, T.C.U.S.

Served January 17, 1956.

[Title of Tax Court and Cause.]

ANSWER

The Commissioner of Internal Revenue, by his attorney, John Potts Barnes, Chief Counsel, Internal Revenue Service, for answer to the petition of the above-named taxpayer, admits and denies as follows:

1, 2. Admits the allegations contained in paragraphs 1 and 2 of the petition.

3. Admits that the deficiencies as determined by the Commissioner are in income tax for the calendar year 1952, in the amount of \$14,342.52. Denies the remaining allegations contained in paragraph 3 of the petition.

4. Denies the allegations of error contained in paragraph 4 of the petition, and all subparagraphs thereof.

5. A. Admits the allegations contained in subparagraph A of paragraph 5 of the petition.

B. Admits that petitioner owned land, buildings and equipment used for a casinghead gasoline plant in the Signal Hill Oil Field in Los Angeles County, California. Denies the remaining allegations contained in subparagraph B of paragraph 5 of the petition.

C-I. Denies the allegations contained in subparagraphs C through I of paragraph 5 of the petition.

J. Admits that petitioner had no cost for said leases, casinghead gas contracts or other purchase contracts and the amount received therefor constituted profits. Denies the remaining allegations contained in subparagraph J of paragraph 5 of the petition.

K. Denies the allegations contained in subparagraph K of paragraph 5 of the petition.

L. Admits that petitioner was paying to gas producers a royalty of approximately 40% of the

amounts received from natural gasoline and propane gas and dry gas. Denies the remaining allegations contained in subparagraph L of paragraph 5 of the petition.

M. Admits that petitioner was not released from its obligations to the oil producers to pay the 40% royalty. Denies the remaining allegations contained in subparagraph M of paragraph 5 of the petition.

N. Denies the allegations contained in subparagraph N of paragraph 5 of the petition.

O. Admits the allegations contained in subparagraph O of paragraph 5 of the petition.

P. Denies the allegations contained in subparagraph P of paragraph 5 of the petition.

Q. Admits the allegations contained in subparagraph Q of paragraph 5 of the petition.

R. Denies the allegations contained in subparagraph R of paragraph 5 of the petition.

6. Denies generally and specifically each and every allegation contained in the petition, not hereinbefore expressly admitted, qualified or denied.

Wherefore, it is prayed that this appeal be denied and that the respondent's determination be sustained.

/s/ JOHN POTTS BARNES, R.E.M.
Chief Counsel, Internal Revenue Service.

Filed March 13, 1956, T.C.U.S.

Served March 21, 1956.

[Title of District Court and Cause.]

Filed May 29, 1958.

FINDINGS OF FACT AND OPINION

More than 6 months prior to November 1, 1952, the petitioner entered into certain contracts with eight oil producers. The contracts had no cost or other basis to the petitioner. Under the contracts petitioner was obligated to receive at the well's mouth, meter and transmit through its pipe lines and process casinghead gas produced by the various producers, thereupon deliver to the producers in kind such portions of the resulting products as were required by their respective contracts, sell the remainder of such products, and then compute and pay to the respective producers the portion of the proceeds of sale required by their contracts. The portion of sales proceeds not required to be paid to the producers was retained by petitioner for the work or services it had performed. Prior to November 1, 1952, the petitioner performed all of the work or services required of it under the eight contracts. On November 1, 1952, and effective as of that date, the petitioner entered into an arrangement with Signal Oil and Gas Company which in form was a sale of the eight contracts to Signal but which in total effect or substance was merely an arrangement whereby petitioner employed Signal for at least a period of 10 years and at a fixed or determinable compensation to perform a portion of the work or

services required of petitioner by the contracts. Thereafter, the petitioner continued to perform the initial and final portions of such work or services and Signal has performed the intermediate portion. Held, that the arrangement between petitioner and Signal did not constitute a sale by petitioner of the producers' contracts and that the amounts of \$85,000 and \$11,351.41 received by petitioner in 1952 under the arrangement were ordinary income to petitioner and not long-term capital gains.

MELVIN D. WILSON, ESQ., and
MELVIN H. WILSON, ESQ.,

For the Petitioner.

MARK TOWNSEND, ESQ.,

For the Respondent.

Withey, Judge:

The respondent determined a deficiency of \$14,342.52 in the income tax of the petitioner for 1952. Issues for determination are the correctness of the respondent's action in failing to determine that the amounts of \$85,000 and \$11,272.40, received by petitioner pursuant to certain transactions involving "casinghead gas" contracts, constituted long-term capital gain and were taxable as such.

Findings of Fact

Some of the facts have been stipulated and are found accordingly.

The petitioner is a California corporation, organized in 1912 and has its principal office in Los Angeles, California. It filed its income tax return for 1952 with the district director in that city. During the years involved herein the petitioner kept its books and filed its income tax returns on an accrual basis.

The petitioner's business consists of the processing of casinghead gas, hereinafter sometimes referred to as wet gas, derived from the production of petroleum oils into its separate ingredients, including natural gasoline, dry gas and propane gas, and the operation of a petroleum refinery where natural gasoline is blended with other gasoline and after being refined is purveyed to the public through retail outlets. Its refinery is located at Bakersfield, California. Its processing plants were during 1952 and prior thereto located in Santa Fe Springs, Maricopa and Signal Hill, California. An important determining factor with respect to profitable operation of a casinghead gas processing plant is the availability of an adequate supply of gas so that the plant may be operated at as nearly as possible its full capacity.

More than 6 months prior to November 1, 1952, petitioner had entered into eight separate contracts with oil producers, hereinafter referred to as producers, for the acquisition by it of casinghead gas produced from drilling operations in the Signal Hill Oil Field. The contracts generally each provided

that petitioner was to install and maintain pipelines from producers' wells or gas traps to its Signal Hill processing plant; that it equip the lines with meters so that accurate account might be kept of all gas emanating from the wells of individual producers; that the producer would deliver the wet gas produced at his wells to the pipeline; that petitioner was to process the gas and pay each producer a percentage of the total gross proceeds derived from petitioner's sale or use of the natural gasoline and propane gas extracted by such processing. The producer had an option to receive payment in kind if he so desired. Upon completion of the processing, petitioner had the right to sell to others all of the product not required to be returned to the producer and thereupon to pay the producer, not being paid in kind, a stipulated percentage of the gross sale price received. Petitioner had the right to and did use natural gasoline so derived in its refinery and to pay the producer an equivalent royalty therefor based upon the market price thereof.

The natural gasoline used by petitioner in its refinery under the contracts referred to was not the identical gasoline resulting from its processing operation. Such gasoline was obtained at its Bakersfield refinery from Standard Oil Company of California through an exchange agreement with that concern. By virtue of the exchange agreement petitioner escaped the cost of transporting its natural gasoline from its processing plant at Signal Hill to the refinery.

The Signal Oil and Gas Company, hereinafter referred to as Signal, owned and operated a processing plant for casinghead gas located in the Signal Hill Oil Field. During the fall of 1952 petitioner determined that the operation of its processing plant in Signal Hill was unprofitable or in danger of becoming so because of an inadequate source of supply of gas and for that reason sought a profitable method of divesting itself of its processing plants and equipment. To that end, in the fall of 1952, it began negotiations with Signal for sale to the latter of its processing plant in Signal Hill. On November 1, 1952, the negotiations culminated in the sale by petitioner to Signal of its Signal Hill processing plant, pipelines, pipes, meters, and fittings in the Signal Hill Oil Field (except the pipelines, pipes, meters, and fittings located on the properties from which wet gas was currently being delivered under the above-mentioned eight contracts with oil producers), together with other properties owned by petitioner consisting of oil leases, interest in lands and gasoline storage and pier facilities located in Santa Barbara County, California.

On the same date, a separate agreement was entered into by petitioner and Signal. This agreement was effected by petitioner's acceptance on November 1, 1952, of the following offer of Signal contained in a letter addressed to petitioner and dated October 29, 1952:

Subject to the conditions and for the considerations hereafter set forth, Signal Oil and Gas Com-

pany hereby offers to purchase from you the following properties, to wit:

All leases, gas contracts or other purchase agreements held by Bankline for the purchase or processing of wet gas from properties located in the Signal Hill Oil Field. A schedule of said instruments is hereunto attached and by this reference made a part hereof and marked Exhibit "A."

Signal Oil and Gas Company offers to pay for the above-described properties the sum of \$85,000.00, plus further sums of money calculated in the following manner:

Signal shall process said wet gas, or cause said wet gas to be processed, at its plant in the Signal Hill Oil Field or at such other plant or plants as Signal shall hereafter elect, whether or not said plants shall be owned and/or operated by Signal. All dry gas resulting from said operations not required to be returned to the properties from which produced shall be sold by Signal and the net sales price paid to Bankline monthly. All natural gasoline and LPG Propane extracted by Signal from said wet gas shall likewise be sold by Signal at the average price it receives for like products sold by Signal, and Signal shall pay Bankline monthly a sum of money equal to the sales price of said natural gasoline and LPG Propane, less the following sums, to wit:

The sum of $2\frac{1}{2}c$ per gallon on all natural gasoline and the sum of $1\frac{1}{4}c$ per gallon on all LPG Propane.

Said deductions are based upon the present price of 8.33c per gallon posted by Standard Oil Company of California for 21# R.V.P. natural gasoline in the Signal Hill Oil Field and shall be increased or decreased at the times and in direct proportion to any increase or decrease above or below said price of 8.33c per gallon posted by Standard Oil Company of California for 21# R.V.P. natural gasoline in the Signal Hill Oil Field.

Connections shall be established between the wet gas lines presently owned and operated by Bankline and those presently owned and operated by Signal at two locations, to wit: in the proximity of Temple and Hill Streets and in the proximity of Willow and Walnut Streets, Signal Hill, and transmission of said gas shall be made at said points or at other points if in Signal's judgment other connections shall be required. Signal shall also connect its dry gas lines to the dry gas lines presently owned and operated by Bankline in the proximity of Cherry and Willow Streets for delivery of gas to the properties from which it is produced, when such re-delivery shall be required. Signal shall meter the wet gas in master meters installed for said purpose and shall make all applicable tests at said points, accounting to Bankline for the entire amount of wet gas received pursuant to this agreement without allocation as to the individual properties from which said gas is produced.

Signal in its operations hereunder shall use the same metering, testing, and accounting procedure

currently used by Signal in connection with other wet gas being purchased by Signal in said Signal Hill field and drips secured from the pipeline system of Bankline will be accounted for on the same basis as other drips collected by Signal; provided, however, that such procedures of metering, testing and accounting shall conform with the provisions of the agreements described in Exhibit "A" as modified from time to time by usages and customs in the industry.

This agreement shall remain in full force and effect for the period of ten years from November 1, 1952, and thereafter so long as Signal shall elect. In the event that at any time after ten years from November 1, 1952, Signal shall desire not to receive and/or process the wet gas produced from the properties described in Exhibit "A" it shall give written notice to that effect to Bankline. Within thirty days after said notice Bankline by written notice to Signal may elect to purchase the leases, gas contracts and other purchase agreements herein purchased from Bankline for the sum of \$10.00 and have such of said leases and other agreements then remaining in effect reassigned to it, and upon notice to that effect Signal shall reassign all of said leases and agreements. In the event Bankline shall not elect to receive such reassignments, then Signal may without further obligation to Bankline sell or assign said agreements to third parties or may quitclaim, surrender or otherwise terminate any or all of them.

The contracts listed in Exhibit A mentioned in the foregoing agreement were the eight contracts with oil producers heretofore mentioned. Pursuant to the foregoing agreement petitioner on November 1, 1952, executed an "Assignment" which recited that petitioner did thereby assign to Signal "all its right, title and interest in, to and under" the eight contracts.

The payment of the \$85,000 amount called for by the agreement was by Signal's noninterest-bearing note, dated December 1, 1952, in that amount providing for installment payments of \$4,000 monthly over a 20-month period and a final payment of \$5,000. Subsequently, the note was paid in accordance with its provisions.

On November 1, 1952, petitioner and Signal orally entered into another agreement which was reduced to writing on December 1, 1952, and was set out as follows in a letter from Signal to petitioner dated December 1, 1952:

Reference is made to our letter to you dated October 29, 1952, wherein Signal Oil and Gas Company offered to purchase from you certain leases, gas contracts and other purchase agreements held by Bankline for the purchase or processing of wet gas from properties located in the Signal Hill Oil Field, which offer was accepted by you under date of the day of November, 1952.

Signal Oil and Gas Company hereby agrees to sell and deliver to you natural gasoline in monthly

amounts equivalent to the amount of natural gasoline extracted by Signal from the wet gas processed by it under the provisions of the above-mentioned letter agreement of October 29, 1952. The term of this agreement shall be ten years from November 1, 1952, and so long thereafter as Signal shall be receiving wet gas produced from the above-mentioned wells.

The sales price of all natural gasoline delivered pursuant to this agreement shall be the average price received by Signal during the month in which deliveries are made for natural gasoline of like quality sold by Signal in the Signal Hill Oil Field.

Nothing herein contained shall be construed as requiring us to produce a product of any particular vapor pressure, but delivery shall be made in such product as Signal shall from time to time be producing at the plant in which the above-mentioned wet gas is processed.

* * *

During the negotiations Signal, for accounting and tax purposes, desired that the \$135,000 purchase price for petitioner's properties be broken down and allocated in the contracts herein referred to—\$85,000 for the casinghead gas contracts, \$25,000 for the processing plant and equipment, and \$25,000 for other assets of petitioner. So far as either party was concerned, however, the transactions were taken as a whole and consisted of a "package deal." Petitioner was at first indifferent with respect to an allocation,

but later became concerned lest the allocation for the processing contracts be determined to constitute ordinary income. It expressed its concern to Signal and, as a result, that company, by letter also dated December 1, 1952, agreed——

to indemnify and hold Bankline Oil Company harmless from the payment of any greater United States corporate income tax pursuant to Sections 13, 15 and 430 of the Internal Revenue Code on the receipt of said sum of \$85,000.00 than the said income tax calculated on said sales price pursuant to Section 117 of said Code.

On its acquisition of petitioner's Signal Hill processing plant, Signal dismantled it but connected its main pipeline to petitioner's former line and thus conducted the wet gas formerly processed by petitioner to its Signal Hill processing plant. A meter was installed by Signal upon its main pipeline and it thereafter accounted to petitioner for the total gas received by that means.

Subsequent to the above transaction petitioner continued to own and maintain the pipelines to the producers and the meters used in connection therewith and made regular meter readings of the gas received from each producer. The petitioner continued to be liable to the producers for royalties on the gas obtained from them and continued to maintain its own royalty records and to compute and to pay royalties due the individual producers.

Generally, petitioner's operations with Signal were carried on as follows:

All the natural gasoline produced by Signal under the contracts with the oil producers was delivered to Standard Oil Company of California under an exchange agreement for the account of petitioner. At petitioner's direction a portion of this gasoline was delivered by Standard Oil Company to one of the producers to satisfy petitioner's obligation to deliver natural gas as a royalty in kind under the contract between petitioner and that producer. A quantity equal to the balance of the natural gasoline produced was delivered by Standard Oil Company to petitioner at the Bakersfield refinery pursuant to an exchange agreement between Standard Oil Company and petitioner.

Signal billed petitioner for the entire amount of natural gasoline extracted by Signal from the wet gas processed under the contracts with the oil producers, and petitioner paid this amount to Signal. Signal then deducted its charges of $2\frac{1}{2}$ cents per gallon from this amount and returned the remaining amount to the petitioner.

The liquid propane extracted by Signal from the wet gas processed under the contracts with the oil producers was sold to third parties by Signal. The total sales price was received by Signal, a charge of $1\frac{1}{4}$ cents per gallon was deducted and the remaining amount was paid to petitioner.

The dry gas was handled in the following manner:

A portion of the dry gas was returned to the leases as required by the contracts with the oil producers. Where the dry gas returned to the leases was in excess of the amount required under the contracts, petitioner billed the producers directly and received the proceeds.

A portion of the dry gas was delivered to one of the producers by Signal for the account of petitioner to satisfy petitioner's obligation to deliver dry gas as a royalty in kind under the contract between petitioner and that producer.

The remainder of the dry gas was sold to third parties by Signal and the entire proceeds were remitted to petitioner, as there was no charge for processing dry gas.

Signal, although using less than its total capacity as of the fall of 1952, was operating its Signal Hill processing plant with an adequate supply source of casinghead gas. Its processing of additional gas which it might obtain through petitioner's contracts with producers would be at only a slight increase in its cost of operation. Such gas was unusually rich in that it produced between 8 and 9 gallons of natural gasoline per 1,000 cubic feet of gas. The royalties to producers under petitioner's eight contracts averaged about 42 per cent of the value of natural gasoline and propane gas produced by the processing of wet gas emanating from their wells. In 1952 the

going rate of such royalties to all producers in the Signal Hill area was about 55 per cent. Signal believed the production of casinghead gas from wells in this field would remain relatively constant over a number of years.

During 1952 the usual charge in the Signal Hill Oil Field for processing wet gas varied between \$0.0075 and \$0.0085 per gallon of natural gasoline resulting therefrom. Ordinarily in 1952 in the Signal Hill area a contract to process wet gas was characterized by an agreement to extract natural gasoline, propane and dry gases therefrom for a fixed price per gallon of gasoline thus produced. All products of the extraction process were returned to the owner of the wet gas or other entity having the right to such products. No title to the wet gas passed to the processor. Such contracts were also characterized by provision for their termination on relatively short notice. To pay a processor a bonus for his services was not customary.

On its books Signal treated the November 1, 1952, transaction relating to the eight producers' contracts as constituting the acquisition of a capital asset and has amortized the amount of \$85,000 as the cost thereof. Petitioner, on the other hand, on its books has treated the same transaction and Signal's subsequent disposition of the products produced as sales of those products and the amounts retained by Signal as its charges for processing.

The oral agreement which was reduced to writing on December 1, 1952, relative to the sale by Signal

to the petitioner of natural gasoline equivalent in amount to that obtained through the eight producers' contracts here involved, was canceled by the parties thereto on October 9, 1957, effective as of October 1, 1957.

The petitioner was not engaged in the business of buying and selling casinghead gas contracts. It had no cost or other basis in the eight producers' contracts involved herein.

The following is a statement computed on an accrual basis showing the results of Signal's and petitioner's operations for the months of November and December, 1952, and the years 1953, 1954, and 1955, with respect to the eight producers' contracts involved herein:

Bankline Oil Co. vs.

	1952	1953	1954	1955
Total value of natural gasoline produced by Signal.....	\$30,557.27	\$243,189.78	\$231,449.15	\$228,378.35
Total amount of propane gas sold third parties by Signal.....	666.73	5,529.09	5,401.10	4,814.48
Total amount received by Signal from sale of dry gas not consumed by oil and gas producers nor by Signal.....	1,817.14	13,997.25	13,869.17	16,229.30
Total amount of dry gas delivered by Signal as royalty in kind for account of petitioner.....	942.66	7,201.64	7,129.82	8,226.81
Total amount of dry gas returned to leases in excess of amounts required by leases.....	57.57	275.55	229.26	227.47
Total.....	34,041.37	270,175.31	258,078.50	257,876.41
Portion of sales price of natural gasoline and propane gas retained by Signal.....	10,235.87	79,196.89	75,026.84	74,772.56
Amounts remitted by Signal to petitioner.....	23,805.50	190,978.42	183,051.66	183,103.85
Royalties paid by petitioner (plus fair market value of natural gasoline and dry gas delivered in kind).....	12,454.09	96,488.68	92,048.81	92,638.42
Net amount remaining after petitioner's payment of royalties to producers.....	11,351.41	94,489.74	91,002.85	90,465.43

In Schedule D of its income tax return for 1952 the petitioner reported a long-term capital gain of \$94,440.84 from the sale of capital assets. In an accompanying schedule in explanation of the gain the petitioner showed the sale of four automobiles, two parcels of real estate and some casing as having been made on August 31, 1952, and prior thereto during 1952. In further explanation the petitioner showed as having been sold on November 1, 1952, the following: "Signal Hill Absorption plant, State Lease PRC 421, and Bishop Tank farm." The gross sale price of the foregoing was shown in a single amount as \$135,000. Also shown in single amounts were depreciation, \$973,441.76; cost, \$1,013,664.67, and gain, \$94,777.09. Concededly, nothing was shown in the return to indicate that the eight producers' contracts involved here, or any of them, had been sold or that any portion of the reported gross sales price of \$135,000 had been received for or with respect to the producers' contracts.

After making a field investigation of the petitioner's income tax liability for 1952, the respondent determined that \$85,000 of the \$94,777.09 reported by petitioner as long-term capital gain from the sale of the absorption plant, the state lease and the tank farm constituted ordinary income, giving the following explanation in the notice of deficiency for his action:

You reported as long-term capital gain the sum of \$85,000.00 received during the taxable year from Signal Oil and Gas Company under the terms of an

agreement dated November 1, 1952, providing for the processing by that corporation of wet gas from certain properties located in the Signal Oil Field District which are covered by your previous agreements with the producers.

It is held that the sum of \$85,000.00 received in the taxable year constitutes ordinary taxable income under the provisions of section 22 of the Internal Revenue Code of 1939 instead of long-term capital gain as reported on your return.

Under the processing arrangement with Signal respecting the eight producers' contracts there accrued to the petitioner during the months of November and December, 1952, total income in the amount of \$11,351.41. In its income tax return for 1952, the petitioner reported that income as ordinary income. Like income accruing to the petitioner in subsequent years has been so reported by it in its returns for those years.

Opinion

The petitioner takes the position that by the arrangement it entered into with Signal on November 1, 1952, it sold its entire interest in the eight producers' contracts here involved to Signal, that those contracts were held for use in its business and not primarily for sale to customers in the ordinary course of its business, that the contracts had been held by it for more than 6 months and that accordingly the \$85,000 and the \$11,351.41¹ received by it

¹The amount as stated in petition is \$11,272.40. The amount shown by stipulation and used by parties on brief is \$11,351.41.

pursuant to the arrangement proceeds received from the sale of capital assets held for more than 6 months and were taxable as long-term capital gain under the provisions of section 117 of the 1939 Code.

The respondent takes the position that the arrangement did not constitute a sale by petitioner of the producers' contracts but at most constituted only an arrangement whereby petitioner contracted with Signal that the latter was to perform for a stated minimum period and at a fixed or determinable charge a portion of the services required of petitioner under the producers' contracts and which portion the petitioner theretofore had performed. Accordingly, the respondent contends that neither the \$85,000 nor the \$11,351.41 represented proceeds from the sale of capital assets but represented amounts received by the petitioner for actually performing and in effecting performance of the services required of it under the producers' contracts and that consequently both amounts were ordinary income.

Respecting section 117 the Supreme Court in *Commissioner vs. P. G. Lake, Inc., U.S.*, decided April 14, 1958, said:

The purpose of § 117 was "to relieve the taxpayer from * * * excessive tax burdens on gains resulting from a conversion of capital investments, and to remove the deterrent effect of those burdens on such conversions." See *Burnet vs. Hormel*, 287 U.S. 103, 106. And this exception has always been narrowly construed so as to protect the revenue against artful

devices. See *Corn Products Refining Co. vs. Commissioner*, 350 U.S. 46, 52.

To obtain the benefit of section 117 the taxpayer must bring itself squarely within the terms of the section and all fair doubts are to be resolved against it. *Merton E. Farr*, 11 T.C. 552, *affd. sub. nom. Sloane vs. Commissioner*, 188 F.2d 254.

The parties have stipulated that four of the producers' contracts here involved were also involved in *Helvering vs. Bankline Oil Company*, 303 U.S. 362, which affirmed 33 B.T.A. 910. In that case the petitioner sought deductions for depletion with respect to the gas which it processed during the years 1927, 1928, and 1930 under contracts with producers. In deciding adversely to the petitioner the Supreme Court held that under the contracts the petitioner was not a producer of gas but was "a processor, paying for what it received at the well's mouth," that while "Undoubtedly, respondent [the petitioner] through its contracts obtained an economic advantage from the production of the gas," the contracts granted the petitioner no interest in the gas in place, and that since the petitioner had no capital investment in the mineral deposit which suffered depletion, it was not entitled to the deductions sought. The pertinent portions of the remaining four of the eight producers' contracts involved here are for present purposes substantially the same as those involved in the case decided by the Supreme Court. The parties have stipulated that the petitioner had no cost basis for the eight producers' contracts in-

volved here. Accordingly, we conclude that under the decision of the Supreme Court the petitioner was, as respects all of the eight contracts, "a processor, paying for what it received at the well's mouth," namely, wet or casinghead gas in which it did not have any interest with respect to which depletion deductions were allowable.

Whether, as petitioner contends, it sold its entire interest in the eight producers' contracts to Signal on November 1, 1952, by the arrangement entered into by it and Signal on that date is to be determined from a consideration of the total effect or the substance of the transaction and not its form. *Commissioner vs. P. G. Lake, Inc.*, *supra*; *Conrad N. Hilton*, 13 T.C. 623.

Under the producers' contracts the petitioner was obligated to receive at the well's mouth, meter and transmit through pipelines owned and maintained by it and process casinghead gas produced by the various producers and thereupon deliver to the producers in kind such portions of the resulting products as were required by their respective contracts, sell the remainder of such products and then compute and pay to the respective producers the portion of the proceeds of sale required by their contracts. The portion of the sales proceeds not required to be paid to the producers was retained by petitioner for the work or services it had performed. Unquestionably, under the circumstances presented the net income resulting to petitioner from such work or serv-

ices prior to November 1, 1952, constituted ordinary income and not capital gain in its hands. Nor does the petitioner contend otherwise here.

Under the arrangement entered into by petitioner and Signal on November 1, 1952, the petitioner continued to receive the casinghead gas from the producers at the well's mouth, meter it and transmit it through pipelines owned and maintained by it to Signal Hill, California, where petitioner formerly had operated its processing plant. At that point Signal received the gas from the petitioner, processed it, made disposition of the products which resulted from processing, and received the proceeds therefrom. In so doing Signal performed some of the work or services formerly performed by petitioner. After its receipt of the proceeds from the disposition of the products resulting from processing, Signal deducted therefrom 2½ cents per gallon for all natural gasoline and 1¼ cents per gallon for all propane gas resulting from the processing and remitted the remainder to petitioner. Thereupon petitioner began performing work or services formerly performed by it, namely, computing and paying to the producers the portion of such receipts required by their respective contracts. From the foregoing it is clear that on and after November 1, 1952, the petitioner performed part of the work or services required under the producers' contracts and Signal performed part of such work or services, with petitioner performing the initial and final portions and Signal performing the intermediate portion.

It is true that the petitioner executed an "Assignment" which recited that petitioner did thereby assign to Signal all of its right, title and interest in the eight producers' contracts. However, it is also true that under the arrangement of November 1, 1952, if at any time after the expiration of 10 years Signal shall "desire not to receive and/or process" the casinghead gas produced from the properties covered by the producers' contracts, Signal will not be free to dispose of the contracts immediately in any way it sees fit. It first must give petitioner notice of its "desire not to receive and/or process" any further gas covered by the contracts and then petitioner, upon payment to Signal of the token sum of \$10, will be entitled to have the contracts "reassigned" to it. In this connection we think it significant that Signal's profits or gains from the contracts are limited solely to the amounts receivable by it under the arrangement of November 1, 1952, with respect to the natural gasoline and propane gas which result from its processing of the casinghead gas.

As shown by our findings, petitioner's and Signal's operations under the arrangement of November 1, 1952, have resulted in the petitioner receiving the greater share of the net profits arising from such operations.

On its books the petitioner has treated as its sales Signal's disposition of the products resulting from the processing of the casinghead gas and treated the amounts retained by Signal as Signal's charges for

processing the gas. The petitioner contends here that such treatment on its books was erroneous and was utilized merely to simplify the manner of accounting for the payments to be made by petitioner to the producers under their contracts. In support of its contention the petitioner relies on the testimony of, among others, Verne Harrell, who at the time of the trial was vice president and treasurer of the petitioner, and who during the fall of 1952 was vice president of the petitioner and in charge of its accounting records. He is and during 1952 was a certified public accountant. His testimony is to the effect that although he did not examine the writings involved in the arrangement entered into by petitioner and Signal on November 1, 1952, he was advised by petitioner's president that petitioner had sold to Signal its Signal Hill processing plant and its gas processing contracts in the Signal Hill field effective November 1, 1952; that the casinghead gas formerly processed in petitioner's Signal Hill plant thereafter would be processed by Signal but that petitioner would continue to be obligated to pay to the producers their royalty share of gasoline and propane; that he thereupon formulated the accounting procedure by which petitioner on its books has treated as its sales Signal's disposition of products and treated the amounts retained by Signal as Signal's charges for processing the gas; and that such procedure was employed to account for the gross proceeds or gross value of the gasoline, propane and dry gas in order to compute the amounts due the producers under their contracts. It is observed that

Harrell's testimony offers no explanation as to why, if the contracts had been sold to Signal as he stated he had been advised, he, as a certified public accountant, found it either necessary or desirable to formulate an accounting procedure indicating the contrary merely in order to compute the amounts due the producers under their respective contracts.

From a consideration of all of the evidence bearing on the character of the transaction of November 1, 1952, between petitioner and Signal, we are of the opinion that the total effect or substance of the transaction was merely an arrangement whereby petitioner employed Signal for at least a period of 10 years and at a fixed or determinable compensation to perform a portion of the work or services required of petitioner by the eight producers' contracts and which portion the petitioner theretofore had performed. But arrangements whereby one is engaged to render services to or for another are not capital assets. *General Artists Corporation*, 17 T.C. 1517, *affd.* 205 F.2d 360, *certiorari denied* 346 U.S. 866; *David L. Gordon*, 29 T.C. 510; *Thurlow E. McFall*, 34 B.T.A. 108.

Accordingly, we conclude that the transaction of November 1, 1952, respecting the producers' contracts was not a sale of capital assets as petitioner contends.

The evidence shows that the compensation to Signal provided for in the arrangement of November 1, 1952, was especially favorable to Signal and that

even though Signal paid petitioner \$85,000 in accordance with the arrangement, Signal's operations thereunder have been quite profitable to it. As we view the matter, the payment of \$85,000 by Signal represented a payment to compensate petitioner in some measure for the lessened sums that would result to it because of the especially favorable compensation provided for Signal under the arrangement. As such, it was ordinary income to the petitioner.

With respect to the \$11,351.41, which remained in petitioner's hands after paying from the proceeds received from Signal on account of the November and December, 1952 operations, the amounts due the various producers, we think the following statement from General Artists Corporation, *supra*, is applicable:

If one person, originally employed to do work, has another do the work, with the consent of the employer, for a part of the charge, the entire amount received is still ordinary income. * * *

Decision will be entered for the respondent.

Served June 3, 1958.

Tax Court of the United States
Washington

Docket No. 60671

BANKLINE OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DECISION

Pursuant to the determination of the Court, as set forth in its Findings of Fact and Opinion filed May 29, 1958, it is

Ordered and Decided: That there is a deficiency in income tax for the taxable year 1952 in the amount of \$14,342.52.

[Seal] /s/ G. G. WITHEY,
Judge.

Entered June 5, 1958.

Served June 9, 1958.

In the United States Court of Appeals
for the Ninth Circuit

T. C. Docket No. 60671

BANKLINE OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

PETITION FOR REVIEW

To: The Honorable Judges of the United States
Court of Appeals for the Ninth Circuit:

Bankline Oil Company petitions the United States Court of Appeals for the Ninth Circuit to review the decision entered by the Tax Court of the United States on June 5, 1958, pursuant to its Findings of Fact and Opinion promulgated May 29, 1958 (30 T.C. No. 44) ordering and deciding:

“That there is a deficiency in income tax for the taxable year 1952 in the amount of \$14,-342.52.”

This petition for review is filed pursuant to the provisions of Sections 7482 and 7483 of the Internal Revenue Code of 1954.

I.

Jurisdiction

Petitioner on review, Bankline Oil Company, hereinafter sometimes called the taxpayer is a cor-

poration organized under the laws of the State of California, and has its principal office and place of business in Los Angeles, California. The taxpayer filed its corporate income tax return for the calendar year 1952 with the Director of Internal Revenue for the Sixth District of California, at Los Angeles, California, which collection district is within the jurisdiction of the United States Court of Appeals for the Ninth Circuit wherein this review is sought. This case involves a deficiency in corporate income tax for the year 1952.

II.

Nature of Controversy

The only issue in this case was whether the \$85,000 and \$11,351.41 received by petitioner under a contract with the Signal Oil and Gas Company represented proceeds from the sale of capital assets held for more than six months.

More than six months prior to November 1, 1952, petitioner had entered into certain contracts with eight oil producers. The contracts had no cost or other basis to petitioner. Under the contracts, petitioner was entitled to receive at the well's mouths, meter and transmit through its pipelines, and process casinghead gas produced by the various producers, thereupon deliver to the producers in kind such portions of the resulting products as were required by their respective contracts, sell the remainder of said products and then compute and pay to the respective producers the portion of the pro-

ceeds of sale required by their contracts. The portion of sales proceeds not required to be paid to the producers was retained by the petitioner.

By November 1, 1952, the production under the eight contracts had declined to the point where it resulted in an uneconomic operation.

Signal Oil and Gas Company had a casinghead gasoline plant in the same oil field and had a sufficient supply of gas available to it.

As of November 1, 1952, petitioner sold to Signal its casinghead gas plant and its eight casinghead gas contracts mentioned above. Signal demolished the plant and thereafter processed the casinghead gas from the eight contracts in its own plant.

Under the contract of sale petitioner was to receive for the contracts \$85,000, plus further sums measured by the sale price of the products which would thereafter be processed and sold by Signal. In 1952, petitioner received the \$85,000 and a further sum of \$11,351.41 net under said contract of sale.

Petitioner claims that the eight casinghead gas contracts were assets held by it for use in its trade or business and were held for more than six months; that they were sold under a contract pursuant to which petitioner received the \$85,000 and \$11,351.41 sums in 1952; and that such amounts constitute long term capital gains, or gains to be treated like capital gains under the provisions of Section 117J of the Internal Revenue Code of 1939. Petitioner did not

hold those contracts primarily for sale to customers in the regular course of its business.

The respondent claims that petitioner simply employed Signal to perform part of the work that formerly was performed by petitioner and that petitioner received an advance of \$85,000 for giving Signal employment and received the \$11,351.41 as ordinary income from its operations, through an agent, as a casinghead gas contractor.

The Tax Court held for the respondent.

III.

Designation of Court of Review

The petitioner being aggrieved by the said opinion, decision and order desires a review thereof in accordance with the provisions of the Internal Revenue Code by the United States Court of Appeals for the Ninth Circuit, within which circuit is located the office of the Director of Internal Revenue with whom said petitioner filed its 1952 income tax return.

IV.

Statement of Points

Now comes Bankline Oil Company, petitioner on review in the above-entitled cause, and states that it intends to rely upon the following points in this proceeding:

That the Tax Court of the United States erred:

1. In failing to find and hold that the \$85,000 and the \$11,351.44 received by petitioner during the

calendar year 1952 from Signal were items of income subject to treatment as long term capital gains.

2. In failing to find and hold that the casinghead gas contracts held by petitioner prior to November 1, 1952, were assets held for more than six months for use and not primarily for sale to customers in the ordinary course of its trade or business.

3. In failing to find and hold that said contracts constituted valuable property in the hands of petitioner in that they entitled petitioner to the exclusive output of wet gas from the producing wells, so long as petitioner or its successors and assigns complied with the covenants of the contracts.

4. In finding and holding that petitioner's right under the contracts to receive all of the wet gas produced from the wells did not constitute valuable property rights and assets used in the ordinary course of its trade or business because petitioner had no depletable interest in the oil and gas in place.

5. In holding that under the contracts petitioner was merely obligated to perform nondelegable personal services for the producers and could not validly assign such obligation because it was too "personal" in nature.

6. In failing to find and hold that under the casinghead gas contracts petitioner had the right to the exclusive output of all of the wet gas produced and acquired title thereto at the instant the wet gas passed into its gathering lines and that petitioner thereby had an absolute duty to pay for the wet gas,

a price measured by the quantities of natural gasoline produced in its processing plant and sold.

7. In failing to find and hold that the nature of wet gas processing is such that any processor can satisfactorily perform the work and therefore such work is not too "personal" to be delegated.

8. In finding and holding that petitioner did not sell to Signal substantially all of its right, title and interest in the casinghead gas contracts.

9. In holding that Signal was simply working for petitioner in relation to the casinghead gasoline plant in Signal Hill Oil Field, California.

10. In holding that the amounts which Signal received from petitioner from the sale of casinghead gasoline products to petitioner were in part returned to petitioner and that Signal, excepting a processing charge, received such amounts as agent for petitioner.

11. In holding that petitioner continued to own the eight casinghead gas contracts and perform directly or through Signal the services required by petitioner under such contracts and receive ordinary income therefrom.

12. In holding that petitioner continued to receive the casinghead gas from the producers at the well's mouths after November 1, 1952, for its own account, instead of for the account of Signal, the assignee of such contracts.

13. In holding that Signal, until after ten years from November 1, 1952, was not free to sell the casinghead gas contracts acquired from petitioner (provided the assignee continued to perform the covenants contained in said casinghead gas contracts).

14. In failing to find that Signal, as principal, until the fall of 1957, sold the finished casinghead gasoline back to petitioner and received payment in full therefor.

15. In holding that there was little change in petitioner's operations or economic position after the transaction with Signal, while at the same time admitting that the transaction was undoubtedly financially advantageous to both of the parties.

16. In failing to hold that petitioner greatly changed its operations and economic position as a result of its contracts with Signal.

17. In failing to hold that petitioner's casinghead gas contracts were worth more to Signal than they were to petitioner and petitioner could get more by selling the contracts to Signal than it could by keeping and operating them.

18. In finding that petitioner had a tax avoidance motive in adopting the form of the contracts with Signal, and that the substance of such contracts differed from the form thereof.

20. In finding and holding that the 2 $\frac{1}{2}$ c per gallon retained by Signal was a processing charge when the usual processing charge was .75c. The

differential worked out to be about \$40,000 per year or about \$400,000 over ten years.

21. In holding that petitioner was willing to pay an aggregate of \$400,000 over a ten-year minimum period solely for the purpose of receiving capital gain treatment on the \$85,000 it received from Signal allegedly as a bonus for employing Signal.

22. In ordering and deciding that there was a deficiency in petitioner's 1952 Federal corporate income tax liability of \$14,343.52.

23. In failing to order and decide that petitioner has overpaid its 1952 income tax liability by \$10,688.30 and that said amount is legally refundable.

24. In failing to find that petitioner's bookkeeping entries with respect to the transactions covered by this case were dictated by the requirement that petitioner's books show the basis of the royalties payable to the producers of casinghead gas.

Wherefore, petitioner prays that the errors committed by the Tax Court be corrected and that the judgment and findings of the Tax Court be modified.

Dated: August 19, 1958.

MELVIN H. WILSON,
MELVIN D. WILSON,

By /s/ MELVIN D. WILSON,
Attorneys for Petitioner.

State of California,
County of Los Angeles—ss.

I, Melvin D. Wilson, state that I am the Petitioner's attorney of record in the above-entitled matter and am thoroughly familiar with the facts involved in said matter; that I have read the above Petition for Review; that it closely states the facts, matters and controversy and the history of the case, to the best of my knowledge and belief.

/s/ MELVIN D. WILSON.

Subscribed and sworn to before me this 19th day of August, 1958.

[Seal] /s/ ESSIE McCORMICK,
Notary Public in and for said
County and State.

Received and filed August 22, 1958, T.C.U.S.

—————
[Title of Court of Appeals and Cause.]

NOTICE OF FILING PETITION TO REVIEW
DECISION OF THE TAX COURT OF THE
UNITED STATES

To: Commissioner of Internal Revenue, Internal Revenue Building, Washington, D. C., and Arch M. Cantrall, Chief Counsel, Internal Revenue Service, Washington, D. C., Attorney for Respondent.

You are hereby notified that on the 22nd day of August, 1958, a Petition to Review Decision of the

Tax Court of the United States heretofore rendered in the above-entitled cause was filed with the Clerk of the Tax Court of the United States. A copy of the petition as filed is attached hereto and served upon you.

Dated: August 19, 1958.

MELVIN D. WILSON,
MELVIN H. WILSON,

By /s/ MELVIN D. WILSON,
Attorneys for Petitioner.

Receipt of copy acknowledged.

Received and filed August 22, 1958, T.C.U.S.

[Title of Tax Court and Cause.]

STIPULATION OF FACTS

It is hereby stipulated that, for the purpose of this case, the following statements may be accepted as facts and all exhibits referred to herein and attached hereto are incorporated in this stipulation and made a part thereof; provided, however, that either party may introduce other and further evidence not inconsistent with the facts herein stipulated.

1. Petitioner is a corporation with principal offices at 437 South Hill Street, Los Angeles 13, California. The return for 1952 was filed with the District Director of Internal Revenue at Los Angeles, California. Petitioner's books were kept and

its returns filed on the accrual basis for the years involved.

2. Petitioner, as of November 1, 1952, owned a casinghead gas plant and pipelines, located in the Signal Hill Oil Field, California. It also owned an oil and gas lease and other property located in the Elwood Oil Field, Santa Barbara County, California. On November 1, 1952, petitioner entered into an agreement with Signal Oil and Gas Company, a Delaware Corporation operating in California, for the sale of all of the property described in this paragraph for the total sum of \$50,000. Attached hereto as Exhibit 1 is a letter of agreement dated October 29, 1952, accepted November 1, 1952, between petitioner and Signal Oil and Gas Company relating to said sale.

3. Prior to November 1, 1952, petitioner had entered into contracts for the acquisition of wet or casinghead gas, or liquid petroleum gas from oil producers from their leases on land located in Signal Hill Oil Field, California. Petitioner was engaged in the business of treating wet or casinghead gas by the extraction of gasoline therefrom. Copies of said contracts are attached hereto and marked Exhibits 2—a to h, inclusive. Certain of said contracts (specifically c, d, g and h of Ex. 2) have been considered by the United States Supreme Court in *Helvering vs. Bankline Oil Co.* (1938) 303 U.S. 362, 20 A.F.T.R. 782.

4. Attached hereto and made a part hereof and marked Exhibit 3, is a copy of a letter agreement

dated October 29, 1952, and accepted November 1, 1952, between petitioner and Signal Oil and Gas Company relating to said Exhibit 2 contracts.

5. Attached hereto and marked Exhibit 4 is a copy of an installment note dated December, 1952, in the face amount of \$85,000.00, executed by Signal Oil and Gas Company in favor of petitioner, being part of the amount set forth in Exhibit 3.

6. Attached hereto and marked Exhibit 5 is a copy of a letter of indemnity dated December 1, 1952, addressed to petitioner by Signal Oil and Gas Company.

7. Petitioner was engaged in the business of processing casinghead gas under the terms of the casinghead contracts and was not engaged in selling said gas contracts. Petitioner entered into the casinghead gas contracts (Ex. 2—a to h) more than six months prior to October 28, 1952.

8. Petitioner had no cost basis for the casinghead gas contracts concerning which it contracted with Signal Oil and Gas Company on November 1, 1952.

9. Signal Oil and Gas Company had other casinghead gas plants and contracts for the purchase of casinghead gas in and around Signal Hill Oil Field, California.

10. In 1952, under the terms of the said contract (Ex. 3) petitioners received \$85,000 and \$11,351.41 from Signal Oil and Gas Company, computed on the accrual basis, plus further sums in an amount suf-

ficient to enable petitioner to pay the royalties required by the contracts herein called Exhibit 2—a to h.

11. Petitioner continued to pay the oil producers the amounts due them under the contracts referred to herein as Exhibit 2—a to h, inclusive, as petitioner received monies from Signal Oil and Gas Company under its contract (Ex. 3).

12. After the purchase by Signal Oil and Gas Company of the casinghead gas plant from petitioner in Signal Hill Oil Field, the Signal Oil and Gas Company dismantled the plant but continued to operate another casinghead gas plant in that field and took in and processed casinghead gas under the contracts referred to in Exhibit 2—a to h, inclusive.

13. Petitioner filed its 1952 income tax return on April 15, 1953, with the District Director of Internal Revenue, Los Angeles, California, pursuant to an extension given to file its said return by April 15, 1953. Attached hereto and marked Exhibit 6 is a copy of such return.

14. Petitioner paid its 1952 federal income taxes as follows:

March 25, 1953.....	\$25,000.00
June 12, 1953.....	20,112.92
September 14, 1953.....	5,639.12
December 8, 1953.....	5,639.11
	<hr/>
Total	\$56,391.15

15. Petitioner filed its petition to the Tax Court of the United States within ninety days of the deficiency letter dated October 25, 1955.

16. The \$56,391.15 income tax paid for 1952 was paid within three years from the date of the mailing of the notice of deficiency.

17. Petitioner does not contest the adjustments to income for 1952 as set forth in the notice of deficiency excepting as to the treatment of \$85,000 and the \$11,351.41 received by petitioner from Signal Oil and Gas Company under the contracts as set forth in this stipulation.

18. Attached hereto and marked Exhibit 7 is a copy of the contract between Signal Oil and Gas Company and petitioner, dated December 1, 1952, which reduces to writing the same oral agreement made on November 1, 1952.

19. The following is a statement showing the results of the operations under the contract called herein Exhibit "3" by years, computed on the accrual basis (Signal Oil and Gas Company is referred to in such statement as "Signal"):

	1952	1953	1954	1955
(a) Total value of natural gasoline produced by Signal under Exhibits 2 and 3. Petitioner is billed for this amount by Signal and remits this amount to Signal.*	\$30,557.27	\$243,189.78	\$231,449.15	\$228,378.35
(b) Total amount of LPG Propane sold to third parties by Signal. Total sales price is received by Signal and Signal remits to petitioner the amount due petitioner under contract called Exhibit 3. The total amount of the LPG Propane produced by Signal is treated as sales on petitioner's books.	666.73	5,529.09	5,401.10	4,814.48
(c) Amount received by Signal from the sale of dry gas not consumed by the oil and gas producers or by Signal. This entire amount is turned over to petitioner under contract (Ex. 3) and treated as sales on petitioner's books.	1,817.14	13,997.25	13,869.17	16,229.30
(d) Amount of dry gas delivered to General Petroleum Corp. (as a royalty in kind under contract called Ex 2e) by Signal for the account of petitioner. No entry is made on petitioner's books concerning this item.	942.66	7,201.64	7,129.82	8,226.81
(e) Amount of dry gas returned to leases which is in excess of amounts required to be returned to leases. This amount is billed to producers by petitioner and treated as sales on petitioner's books.	57.57	257.55	229.26	227.47
(f) Portion of sales price of natural gasoline and LPG Propane retained by Signal under contract called	34,041.37	270,175.31	258,078.50	257,876.41
	10,235.87	79,196.89	75,026.84	74,772.56

Exhibit 3. (Signal retains no part of the amount received from the sale of dry gas.)

(g) Amounts remitted by Signal to petitioner (plus the fair market value of dry gas delivered to General Petroleum Corp.) under the contract called Exhibit 3.	23,805.50	190,978.42	183,051.66	183,103.85
(h) Royalties paid by petitioner (plus the fair market value of natural gasoline and dry gas delivered in kind to General Petroleum Corp.) as required by contracts called Ex. 2a to h. Petitioner enters royalties paid plus the fair market value of natural gasoline delivered in kind as royalty expenses in its books but makes no book entries concerning dry gas delivered in kind.	12,454.09	96,488.68	92,048.81	92,638.42
(i) Net amounts remaining after payment of royalties.	11,351.41	94,489.74	91,002.85	90,465.43

* Petitioner has all this natural gasoline delivered to the Standard Oil Company at the Signal Hill Oil Field for the account of petitioner. A portion of said gasoline is delivered by Standard Oil Company to General Petroleum Corp. at petitioner's direction to satisfy petitioner's obligation to General Petroleum Company to deliver natural gas royalty in kind under contract (Ex. 2e). A quantity equal to the balance (being the major portion) is delivered by Standard Oil Company to petitioner at petitioner's Bakersfield refinery pursuant to an exchange agreement between Standard Oil Company and the petitioner. The total amount of the gasoline produced by Signal is treated as sales on petitioner's books.

20. The Signal Oil and Gas Company on its books has treated the \$85,000 payment to petitioner as a capital expenditure and has been amortizing this amount on a unit basis based on estimated casinghead gas reserves.

21. Attached hereto and marked Exhibit 8—a to f, inclusive, are copies of accounting records maintained by petitioner, by Signal Oil and Gas Company, and by Standard Oil Company for the month of December, 1954, recording the operations under the contract called herein Exhibit "3." These records are typical examples of the accounting procedures followed during 1952 and later years. Exhibit 8 is more specifically identified as follows:

- Sa—Journal voucher of Bankline Oil Company.
- b—Wet Gas Royalty Statement of Signal Oil and Gas Company.
- c—Invoice of Signal Oil and Gas Company.
- d—Payment statement of Bankline Oil Company.
- e—Oil settlement statement of Standard Oil Company.
- f—Payment statement of Standard Oil Company.

22. Attached hereto and marked Exhibit 9 is a copy of certain resolutions adopted by petitioner in connection with the above-described transactions with Signal Oil and Gas Company.

23. Attached hereto and marked Exhibit 10 is a copy of an assignment executed by petitioner on

November 1, 1952, relating to the contracts called herein Exhibit 2.

/s/ MELVIN D. WILSON,
Counsel for Petitioner.

/s/ NELSON P. ROSE, ECC.
Chief Counsel, Internal Revenue Service, Counsel
for Respondent.

EXHIBIT No. 1

(Copy)

Signal Oil and Gas Company
General Offices 811 West Seventh Street
Los Angeles 17, California

October 29, 1952.

Bankline Oil Company,
437 South Hill Street,
Los Angeles, California.

Gentlemen:

Subject to the conditions and for the considerations hereafter set forth, Signal Oil and Gas Company hereby offers to purchase from you the following properties:

(1) The lessee's interest under that certain agreement dated October 22, 1949, entitled "Oil and Gas Lease Extension and Renewal" between the State of California and Bankline Oil Company, which said extension and renewal superseded State

Oil and Gas Lease No. 89 issued by the State of California under date of October 22, 1929, together with all of your right, title, interest and estate in and to the lands covered thereby, and the wells located thereon, subject to the interests of G. C. Fitzgerald and Bernice T. Fitzgerald, his wife, and their assignees under the agreement between said Fitzgeralds and H. J. Barneson entered into under date of the 28th day of January, 1929, and subject also to assignments of a total of 12½% interest in the profits from operations under said lease by Bankline Oil Company to C. M. Weatherwax, H. C. Hunt and A. M. Kaime under agreement dated September 17, 1929.

(2) The lessee's interest under that certain lease and agreement made and entered into under date of the 2nd day of August, 1929, by and between Thomas B. Bishop Company, a corporation, as lessor, and Bankline Oil Company, as lessee, the demised premises being described in said agreement, and also all of Bankline's interest under two other agreements between the same companies dated August 1, 1930, and December 23, 1948.

(3) All of Bankline's right, title and interest in and to all leases, easements, right of ways or other rights for oil and gas lines, water lines, power lines, or other utilities or facilities connecting with or used in the operations on the lands covered by said oil and gas lease extension and renewal dated October 22, 1949, or said Bishop lease, together with all pipe, pipelines, tanks, equipment, material, sup-

plies, houses and other personal property located upon the lands covered by any of said leases, easements and right of ways or used in connection therewith, together with all easements, right of ways or other rights relating to ingress and egress to and from said leases.

(4) That certain real property located on Willow Street in the City of Signal Hill, County of Los Angeles, State of California, on which Bankline's gas plant is located, together with the building and plant facilities located thereon and all machinery, equipment, tools, pipelines or other personal property located on said real property or used in connection therewith.

(5) All pipelines, pipes, meters and fittings owned by Bankline in the Signal Hill Oil Field and used for the collection and transmission of wet gas to Bankline's plant or the return of dry gas, together with all franchises, easements, rights or right of ways for the installation, maintenance and use of said pipelines and pipes, excepting therefrom that portion of such pipelines, pipes, meters and fittings actually located upon the properties from which such wet gas is being delivered.

Signal Oil and Gas Company offers to pay the sum of \$25,000 for the properties described in paragraphs (1) to (3), inclusive, and offers to pay the sum of \$25,000 for the properties described in paragraphs (4) and (5). Payment shall be made upon delivery of instruments of conveyance or assign-

ment, or at close of escrow in the event an escrow is opened to handle this transaction.

Said offer is made upon the following additional terms and conditions:

(a) That the State of California consents to the assignment of said Oil and Gas Lease Extension and Renewal dated October 22, 1949, from Bankline to Signal.

(b) That the Thomas B. Bishop Company consents to the assignment by Bankline to Signal of all of Bankline's rights under said lease and agreement dated August 2, 1929, and said supplemental agreements dated August 1, 1930, and December 23, 1948.

(c) That the consent of any other party whose consent may be required to permit the assignment by Bankline to Signal of all of Bankline's interest under any agreement described or otherwise referred to herein is obtained.

(d) That the State of California gives satisfactory assurance to Signal that it is now recognizing that the cost of storing and loading oil through the sea loading facilities being transferred hereunder from Bankline to Signal is 5c per barrel and that Signal may account for and pay royalties to the State of California on oil produced by it in the Elwood Field at a price that is 5c per barrel less than the price received by Signal for said oil loaded aboard ship, and that the fair market value at the wellhead of oil produced in the Elwood field at the

present time is 5c per barrel less than the value of said oil loaded aboard ship.

(e) That the Thomas B. Bishop Company agrees to extend the term of said lease and agreement dated August 2, 1929, beyond the term now specified therein and to extend said lease for a term expiring when Signal discontinues the production of oil in the Elwood oil field.

(f) That the properties hereinabove described are free and clear of all liens and encumbrances other than taxes for the years 1952-1953, and easements and right of ways, conditions and restrictions of record.

Both parties agree to use their best efforts to obtain all of the consents and agreements set forth in Paragraphs (a) to (e) of this letter agreement, and further agree to hereafter execute and deliver any and all other papers or documents necessary to fully carry into effect the intents and purposes of this agreement.

In the event that said sales are consummated, Signal shall assume and agrees to perform all of the lessee's obligations under said Oil and Gas Lease Extension and Renewal dated October 22, 1949, and all of Bankline's obligations as assignee of H. J. Barneson under the agreement between G. C. Fitzgerald and Bernice T. Fitzgerald and H. J. Barneson dated January 28, 1929, and all of Bankline's obligations under its agreement with C. M. Weatherwax, H. C. Hunt and A. M. Kaime dated Septem-

ber 17, 1929, and all of Bankline's obligations under all other leases, easements or agreements for right of ways accruing after the effective date of this transaction.

Concurrently with the confirmation of said sales, Bankline agrees to transfer to Signal all of Bankline's right, title and interest in and to funds now being held by the Farmers and Merchants Bank of Los Angeles under escrow No. 16473-SH for the joint account of Bankline, and G. C. Fitzgerald and Bernice T. Fitzgerald, and their successors and assigns under said agreement dated January 28, 1929, and Bankline agrees to transfer to Signal all moneys accumulated and impounded by Bankline under the provisions of said agreement dated September 17, 1929, between Bankline and C. M. Weatherwax, H. C. Hunt and A. M. Kaime.

Signal agrees to protect, defend and indemnify Bankline and to hold it harmless from and against any claims which may be made or asserted against Bankline by any person claiming to be entitled to the foregoing sums hereinabove transferred from Bankline to Signal, or to either of them, or to any portion of said funds or either of them.

All taxes levied or assessed against any of said properties or the mineral rights from the years 1952-1953 shall be prorated to November 1, 1952.

It is contemplated that Signal shall take possession of all of the above-described properties on November 1, 1952, and thereafter operate the wells

and other facilities. As of the date Signal takes possession the parties shall gauge the tanks on the Bishop property and proper adjustment shall be made between the parties for all oil, gas and other hydrocarbons produced up to that date. Bankline shall account for and pay all rentals, royalties and other charges accruing up to and including the 31st day of October, 1952, and Signal shall pay all rentals, royalties and other charges accruing thereafter.

In the event for any reason the sale should be consummated, then Signal shall redeliver possession of said properties to Bankline and account for all moneys received by it, less expenses of operation.

If the foregoing is acceptable to you, will you please so indicate by signing and returning the carbon copy of this letter.

Yours very truly,

SIGNAL OIL AND GAS
COMPANY,

By /s/ R. H. GREEN,
Vice President.

So Understood and Agreed This 1st day of November, 1952.

BANKLINE OIL COMPANY.

By /s/ L. L. AUBERT.

EXHIBIT No. 2-A

Agreement

This Agreement, made and entered into this 15th day of June, 1936, by and between Bankline Oil Company, a California corporation, hereinafter designated as "Operator," and Jet Oil Company, a California corporation, hereinafter designated as "Producer,"

Witnesseth:

Whereas, Producer is the lessee of those certain parcels of land situated in the Signal Hill oil field, Los Angeles County, California, described as follows, to wit:

Block Four (4), Signal Hill Tract, City of Signal Hill, County of Los Angeles, as per map recorded in Book 9 at pages 2 and 3 in the office of the County Recorder of said County;

and,

Whereas, Producer is the lessee of the above-described premises and is the owner of the natural gas produced therefrom and hereby guarantees its right and title to same, subject to the terms of its lease; and

Whereas, Operator has erected and is operating a plant or plants in the Signal Hill oil field for the purpose of treating gas for the extraction of gasoline therefrom; and,

Whereas, Operator in order to augment its supply of gas for said plant or plants, desires to purchase and/or receive from Producer all of the producer's gas which may be produced by Producer from the property above described, and Producer is willing and desires to sell and/or deliver to operator all of the gas produced by Producer from the above-described property, and hereby guarantees its right and title to same;

Now, Therefore, in consideration of the premises and of the covenants, agreements and payments hereinafter set forth and other valuable considerations, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. Producer hereby agrees to furnish and deliver to Operator and Operator agrees to take and utilize in its plant or plants, subject to the terms and conditions of this agreement, all of producer's natural gas produced from the above-described property during the life of this agreement, except as provided in paragraphs 7, 8 and 9 hereof.

2. All gasoline condensed in the lines, pumps or traps of said Producer shall be considered as a part of the gas to be delivered to Operator and shall be accounted for by Operator as gasoline extracted from said gas.

3. Operator is granted the exclusive right to treat gas produced from the above-described property for and during the period of this agreement.

4. Producer shall deliver the gas at the casing-heads and/or at gas traps installed by Producer on the premises above described. Producer agrees to use its best efforts to prevent the inleakage of air in traps or lines. Operator shall furnish, install and maintain all pipelines and connections from casingheads or traps to its plant or plants and such meters as may be necessary for the accurate measurement of the gas received from the property.

5. Producer, insofar as it has the right to do so, shall furnish right of ways for such pipelines and connections on the property. Producer hereby grants to Operator a right of way for its employees and vehicles over and across the lands of Producer hereinabove described for any and all purposes necessary or proper in connection with the business of Operator insofar as it pertains to the functions to be performed by Operator under the terms of this agreement. Operator shall be entitled to remove, within a reasonable time after the termination of this agreement, all pipelines, connections, meters and other equipment installed by it.

6. Operator agrees to pay to Producer as royalty forty per cent (40%) of the proceeds derived from the sale of gasoline extracted from said gas, or, at Producer's option as hereinafter provided, to deliver to Producer as royalty forty per cent (40%) of the gasoline extracted from said gas.

Producer shall have the right to take its royalty gasoline in kind if it so desires, provided that it

shall in such event serve Operator with thirty (30) days' advance notice in writing of such intention. An option once exercised to take such royalty either in cash or in kind shall not be changed for at least six (6) months unless agreed to by both parties hereto.

In event royalty gasoline shall be paid in kind, Operator shall provide ten (10) days' free storage of the royalty gasoline belonging to Producer in tanks provided by Operator; provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Operator.

In event Producer fails to remove said royalty gasoline from the tanks of Operator within the said ten-day period, Operator shall not be obligated to deliver said royalty gasoline to Producer except at such times and in such quantities as will not interfere with the sales and/or deliveries of gasoline which Operator is otherwise required to make from said plant.

Royalty payments shall be made by Operator to Producer on or before the 20th day of each calendar month next succeeding that in which the gasoline is produced.

7. It is understood that Producer is operating its property primarily for oil production, and Operator agrees to handle the gas produced from Producer's property at pressures which in the opinion of Producer will not interfere with the production

of oil from the leases. It is understood and agreed by and between the parties hereto that during the period of flush production, or in event Producer insists on maintaining extremely low pressures on casingheads or gas traps, Operator shall not be obligated to take, treat or pay for gas produced and/or vented during such periods.

In event that the amount of gas produced from the properties of Producer, together with the amount of gas produced from properties of other producers with whom Operator has contracts for the treatment of gas, exceeds the capacity of the plant of Operator, and said excess quantity is not sufficiently permanent in the judgment of Operator to justify the construction of additional plant capacity, then during the period of said excess production the amount of gas of Producer treated in said plant shall be such pro rata of Producer's gas as the total amount of gas available from all producers bears to the amount of gas which can be treated.

Operator shall not be obligated to treat gas hereunder when the quantity of gas produced is so small as to render the treatment of same unprofitable to Operator.

Producer agrees not to treat or cool gas produced on the above-described property in any manner that will cause the gasoline or a portion of the gasoline to be condensed or separated from the natural gas. Producer agrees to maintain the cas-

ingheads of all wells and all their connections thereon tight and in good condition to prevent an inleakage of air into the pipelines of Operator. Should there be an inleakage of air occasioned by Producer not maintaining its equipment in proper condition, a proportionate deduction shall be made in the monthly settlement.

8. Operator shall not be obligated to utilize any gas in its plant or plants which contains less than five-tenths ($5/10$) of a gallon of gasoline per one thousand (1000) cubic feet of gas unless Operator so desires. In event Operator shall refuse or neglect to take and utilize in its plant or plants any gas available on the above-described property for the reason that the gasoline content of the gas is less than five-tenths of a gallon per one thousand cubic feet, Operator agrees to use its best efforts and reserves the right to dispose of such gas in the same manner as provided for handling the residue dry gas from the plant or plants.

9. In event any suit is commenced either in law or in equity involving the title to the gas of Producer, or to the gasoline to which Producer is entitled under this agreement, or to any money to which Producer is entitled, then Operator during the pendency of any such suit may at its option either discontinue the taking of said gas until said suit be finally determined or may continue nevertheless to take said gas, and shall have the right thereupon to impound any moneys due to Producer to the joint account of Operator and Producer in

any national bank in the City of Los Angeles, State of California.

10. Operator shall be entitled to treat at and by means of said plant or plants such quantities of gas as it may desire to take from other producers. Operator shall meter separately the gas received from Producer and from other producers whose gas is so taken, and at least once a month shall test separately, according to a recognized method for testing gas, samples of gas received from Producer and from other producers. The amount of gasoline extracted from gas delivered by Producer shall be determined as a proportion of the total net gasoline extracted at such plant or plants, computed from said meter readings and said tests.

11. It is mutually understood and agreed that Operator shall be entitled to use, free of charge, as much of the residue dry gas remaining after the gasoline shall have been extracted as it may require for fuel and power in the operation of its plant. It is understood that "residue dry gas" as referred to in this agreement is the amount of dry natural gas remaining after deducting from the total amount of natural gas delivered for treatment the amount of gas lost or consumed through shrinkage due to the extraction of the natural gasoline contained therein.

Of the residue dry gas remaining after above deductions have been made, Operator agrees to cur-

rently return to Producer at the property line nearest to the existing dry gas lines of Operator as much of the residue dry gas as may be necessary for fuel purposes and other producing activities of Producer on the said premises; provided, however, that Operator shall not be obligated to deliver such gas at a pressure exceeding twenty (20) pounds per square inch at the plant of Operator making such delivery. It is understood and agreed that Operator may deliver dry gas to Producer in excess of the amount of residue dry gas credited to Producer, but in such event Producer hereby agrees to pay Operator for the excess dry gas delivered at the current market price of residue dry gas sold or delivered from the plant of Operator making such delivery to Producer; or in event Operator, in order to meet the dry gas requirements of Producer, is required to purchase dry gas in the open market, then in this event Producer agrees to reimburse Operator for the excess dry gas furnished to Producer, at the same price Operator is required to pay for same.

12. In the event Producer does not require all of the remaining residue dry gas to be returned to Producer for fuel purposes, then Operator will use its best efforts to sell the balance of the remaining dry gas. In the event of the sale of such remaining dry gas by Operator, Operator shall pay to Producer, on or before the 20th day of the next succeeding calendar month following that in which the sale occurs, sixty per cent (60%) of the pro-

ceeds derived by Operator from the sale of such remaining dry gas; provided, however, that in the event Operator is unable to sell the remaining dry gas, then in such event Operator shall be under no obligation whatsoever to Producer with respect to said remaining dry gas.

13. Producer shall at all reasonable times during business hours have access to the accounts and records of Operator insofar as they pertain to matters arising under this agreement or for the purpose of verifying statements made hereunder.

14. Producer shall be entitled to require Operator to test meters at intervals of at least once each month and oftener in event same is necessary. Producer shall have the privilege if it so desires of having a representative present during all testing of the gas or the checking of meters registering the gas from the above-described property.

15. Operator agrees to furnish Producer with a report not later than the twentieth of each month accounting for the gasoline produced and the dry gas returned for lease operations or sold. It is agreed that any and all objections to such reports must be made to Operator in writing not later than fifteen (15) days after receipt thereof by Producer; that the failure by Producer to make such objection in writing within said period of fifteen days shall create a conclusive presumption that such report is correct in all particulars, and that after said fifteen-day period shall have elapsed

without any such written objection having been made to Operator, Producer shall not thereafter have the right to question or dispute such report in any way.

16. In event at any time or from time to time Operator is required to pay any tax, license or governmental charge, directly or indirectly, upon that part of the gasoline manufactured from the gas of Producer to which Producer is entitled as royalty, or upon the proceeds of the sale of such royalty gasoline, Producer shall reimburse Operator for the full amount of such tax, license or governmental charge so paid by Operator.

17. Operator agrees to promptly pay, before the same become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed or maintained by Operator upon any of the lands of Producer hereinabove described. In event that Operator fails so to do, Producer may pay any such tax and Operator shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of ten per cent (10%) per annum, upon demand being made therefor.

18. Operator shall not suffer any lien or liens to be filed against the plants, pipelines, machinery and equipment or any other property placed by it upon the lands of Producer, for work, labor, material or supplies furnished in connection therewith, and if any such lien or liens are filed thereon

Operator agrees to remove the same at its own expense and cost and shall pay any judgments which may be entered thereon or thereunder. Should Operator fail, neglect or refuse so to do, Producer shall have the right to pay any amount required to release any such lien or to defend any action brought thereon and to pay any judgment entered therein, and Operator shall be liable to Producer for all costs, damages and counsel fees and any amounts expended in defending any proceedings or the payment of any of said liens or any judgment obtained therefor.

19. The non-performance by either party of its obligations hereunder shall be excused so long and only to the extent that such performance is prevented by strikes, delays of transportation companies, interference of governmental authority, or other causes beyond the reasonable control of such party, whether similar or dissimilar to those above stated, or whenever and for so long as such performance is in violation of any governmental order or regulation.

20. It is understood and agreed that in the determining of any question of fact or dispute as to any matter which may arise under this contract, the same shall be determined by a board of arbitrators to be composed of one member appointed by Producer and one member appointed by Operator, and these two persons shall appoint a disinterested third person, and the decision of the majority of the board of arbitrators shall be binding upon both

parties hereto. The decision of the arbitrators shall be a condition precedent to the right of action in this contract.

21. No provision of this contract shall be interpreted contrary to the rules and regulations of any regulatory body of the United States or of the State of California, or of the County of Los Angeles, or of the City of Signal Hill.

22. The term of this agreement shall be for a period of five (5) years from and after the date hereof and so long thereafter as gas may be produced from any of the above-described properties.

23. In case of default by either party in the performance of its obligations hereunder and the continuance of such default for thirty (30) days after written notice thereof specifying the particulars of the default, the party not in default shall be entitled to terminate or suspend this agreement, and all rights and obligations hereunder shall thereupon cease and determine or be suspended accordingly.

24. Any notices hereunder shall be sent by registered mail, to Operator at 634 South Spring Street, Los Angeles, California, and to Producer at 622 Chapman Building, 756 South Broadway, Los Angeles, California, unless and until either thereof shall change the place of notice by written communication sent to the other by registered mail.

25. This agreement in all of its terms and conditions shall constitute a covenant running with

the lands hereinbefore described, and as such shall be binding upon the parties hereto and their respective assigns or successors in interest. Producer covenants and agrees with Operator that in event Producer shall at any time desire to convey, assign or transfer any rights in and to said lands, or any portion thereof, or in, to or under this agreement, to any third party that it will forthwith notify said third party of the terms and conditions of this agreement and require said third party as a part of any transaction involving any such conveyance, assignment or transfer to accept and agree to be bound by each and all thereof, thereafter submitting documentary evidence of all thereof to Operator.

In Witness Whereof, the parties hereto have caused this instrument to be executed the day and year first hereinabove written.

BANKLINE OIL COMPANY,

By /s/ H. J. BARNESON,

Vice President, and

/s/ E. J. CASE,

Asst. Secretary, "Operator."

JET OIL COMPANY,

By /s/ OWEN E. KUPFER,

President, and

/s/ M. A. EGAN,

Secretary, "Producer."

State of California,
County of Los Angeles—ss.

On this 25th day of June, 1936, before me, Nina M. Brockus, a Notary Public in and for the said County and State, personally appeared H. J. Barne-son, known to me to be the Vice President, and E. J. Case, known to me to be the Assistant Secre-tary of Bankline Oil Company, the corporation that executed the within instrument, known to me to be the persons who executed the within instrument, on behalf of the corporation herein named, and acknowledged to me that such corporation executed the same.

In Witness Whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

/s/ NINA M. BROCKUS,
Notary Public in and for Said
County and State.

State of California,
County of Los Angeles—ss.

On this 22nd day of June, 1936, before me, Christine Sand, a Notary Public in and for the said County and State, personally appeared Owen E. Kupfer, known to me to be the President, and M. A. Egan, known to me to be the Secretary of Jet Oil Company, the corporation that executed the within instrument, known to me to be the per-sons who executed the within instrument, on behalf

of the corporation herein named, and acknowledged to me that such corporation executed the same.

In Witness Whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

/s/ CHRISTINE SAND,

Notary Public in and for Said
County and State.

EXHIBIT No. 2-B

This Agreement, made and entered into this 1st day of December, 1950, by and between Bankline Oil Company, a California corporation, hereinafter designated as "Bankline," first party, and M. K. Doumani, hereinafter designated as "Producer," second party;

Witnesseth:

That, Whereas, Producer represents that it has the exclusive right to dispose of the natural gas produced by it from its wells located upon certain lands in the Long Beach oil field, Los Angeles County, California, which lands for the purpose of this agreement are for convenience hereinafter referred to as the "subject premises" and are described as follows:

M. K. No. 2 located on

W $\frac{1}{2}$ W $\frac{1}{2}$ N $\frac{1}{2}$ of Farm Lot 79, American Colony Tract of the City of Signal Hill, in the

County of Los Angeles, State of California, as per map recorded in Book 19, pages 89-90, Miscellaneous Records of said County.

And, Whereas, Bankline desires to receive from Producer for the purpose of extracting natural gasoline therefrom all of the natural gas which may be produced by Producer from its wells located on the subject premises, and Producer is willing and desires to deliver to Bankline all of the natural gas so produced from said premises during the time this agreement shall be in full force and effect, and hereby warrants its right and title to such natural gas;

Now, Therefore, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. For the purpose of this agreement the following words or groups of words when used herein will have the following respective meanings, namely:

Gas—The term “gas” shall be deemed to mean all gas in its natural state and include as well all gas that may in any way or for any cause flow, arise, or be extracted from the wells on the subject premises and all condensate collected from gas after the delivery thereof into Bankline’s gas gathering system.

Residual Gas—The term “residual gas” is defined as the amount of dry gas remaining from the total amount of gas delivered to Bankline for processing after deducting therefrom the amount of gas lost through shrinkage due to the extraction of the gasoline content thereof. This shrinkage factor shall, for the purpose of this agreement, be 27 cubic feet of gas for each gallon of gasoline extracted from the gas and 35 cubic feet of gas for each gallon of other liquefiable hydrocarbons extracted from such gas.

Gasoline—The term “gasoline” is defined as the product commonly known as natural gasoline of the quality currently manufactured at Bankline’s Absorption Plant from the gas received from other sources.

Other Liquefiable Hydrocarbons—The term “other liquefiable hydrocarbons” is defined as propane and butane or mixtures thereof other than natural gasoline which may from time to time be manufactured or extracted in liquid form from the gas received and delivered hereunder.

2. Subject to the terms and conditions hereof, Producer agrees to deliver to Bankline and Bankline agrees to receive from Producer, for the purpose of extracting gasoline therefrom, all of the gas produced from Producer’s wells located on the subject premises during the life of this agreement.

3. The delivery of all gas to Bankline hereunder

shall be made by Producer at gas traps installed by Producer at or adjacent to the wells for the purpose of separating the gas from the crude oil. Producer agrees to keep the casingheads and connections of all its wells tight and in good condition in order to prevent leakage of air into the pipeline, and when any well or wells shall be taken out of service for repairs, or for any other purpose, to shut off such wells from the collection or gathering main by suitable stopcocks to be furnished by Bankline. Should there be any leakage of air occasioned by Producer not maintaining its equipment in proper condition, the gas may be turned to air until the condition causing the leakage of air shall have been corrected.

Bankline shall have the right to recover all gasoline condensed in the pipelines, sumps, or pipeline traps downstream from the point of measurement and testing, and the condensate so recovered by Bankline shall be considered as a part of the gas delivered to Bankline hereunder and shall be accounted for accordingly. Producer shall provide and install, as required by Bankline, suitable sumps or tanks in which to drain any crude oil collected in the pipelines through which gas is taken by Bankline from Producer hereunder.

4. Bankline shall furnish, install and maintain, at its own expense, all necessary pipelines and connections from the traps to the plant, as hereinafter provided. Producer hereby grants to Bankline, subject to its rights to do so, the right at all times

during the life of this agreement to install required equipment and lines and maintain, repair, renew, replace and/or change the size of all necessary pipelines and other equipment installed by Bankline upon and across the subject premises, and shall at all times during the life of this agreement have full rights of ingress and egress.

Bankline shall indemnify Producer against and hold it harmless from any and all liability for damages to persons or property caused by the operations of Bankline on the subject premises.

5. Bankline shall maintain its plant, pipeline and other facilities in first class condition in order to avoid any unnecessary loss of gas from the time the gas enters the pipeline at the point or points where the gas is delivered to Bankline, and shall operate its plant wherein such gas is processed in an efficient and workmanlike manner consistent with usual and economic plant operations so that a maximum quantity of gasoline of the quality currently manufactured at its said plant will be extracted from the gas delivered to it hereunder.

6. The quantity of gasoline and other liquefiable hydrocarbons extracted and saved from the gas delivered to Bankline hereunder, which Bankline shall deliver to Producer as royalty, shall be fifty per cent (50%) of the total quantity of gasoline and other liquefiable hydrocarbons so extracted and saved from Producer's gas during each calendar month as determined by the test referred to in paragraph 7 hereof.

Producer shall have the right within thirty (30) days after giving Bankline notice of its intention to take payment of its royalty in money or in kind. An option once exercised to take such royalty either in money or in kind shall not be changed for at least thirty (30) days unless such change is agreed to by both of the parties hereto.

Producer shall be entitled to ten (10) days' free storage of its royalty gasoline and other liquefiable hydrocarbons in tanks provided by Bankline, provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Bankline. Delivery of Producer's royalty gasoline and other liquefiable hydrocarbons shall be made at the plant where produced or at some other point mutually agreeable to the parties hereto.

Deliveries of gasoline by Bankline to Producer hereunder shall be made, at Producer's option, either into tank trucks or pipelines installed and maintained by Producer. In the event the gasoline is loaded into tank trucks, the number of gallons delivered shall be computed on the basis of the number of gallons gauged in such tank trucks at time of loading. In the event the gasoline is delivered into pipeline, the number of gallons so delivered to Producer shall be computed on the basis of the number of gallons metered from Bankline's tanks from which such shipments are made. All such measurements of gasoline shall be corrected to a temperature of 60° Fahrenheit. All samples

for determining the quality of the gasoline delivered by one party to the other hereunder shall be taken from the trucks into which such deliveries are made or from the tanks from which pipeline shipments are made, depending upon the method of delivery.

In the event Bankline is not given notice of Producer's intention to take its royalty interest in kind, it shall be deemed that Producer desires to receive its royalty interest in money, and Bankline agrees to pay Producer a proportion of the total gross proceeds received by Bankline from the sale at its plant of the gasoline and other liquefiable hydrocarbons extracted by it from the gas delivered to it by Producer hereunder calculated at the hereinabove specified royalty rate.

If Producer shall not elect to take its royalty production in kind, and if in such event the gasoline extracted from the gas delivered and received hereunder is not sold by Bankline to third parties, then Bankline agrees to purchase Producer's said royalty share of such gasoline at the Standard Oil Company's posted price in the Long Beach oil field for gasoline of like Reid vapor pressure as the gasoline extracted by Bankline at its said plant during the same calendar month.

Royalty payments shall be made by Bankline to Producer on or before the 20th day of the calendar month next succeeding the month in which the gasoline is produced.

7. Bankline shall be entitled to process at and by means of its plant such quantities of gas as it may desire to take from operators other than Producer, provided, however, that in such event Bankline shall meter separately the gas received from Producer and from such other operators whose gas is so processed. As often as Bankline deems necessary, it shall test separately samples of gas received from Producer and from other operators whose gas is so received by Bankline, in accordance with the methods specified in California Natural Gasoline Association Bulletin No. TS-351, or revisions thereof. The natural gasoline content shall be determined by the rectified test, and the other hydrocarbon contents shall be determined by the difference between the 30#-32° F test and the rectified test or any other method which shall be mutually agreed upon by Producer and Bankline.

For the purpose of determining the royalty to which Producer shall be entitled hereunder, it is agreed that the amount of gasoline and other liquefiable hydrocarbons extracted and saved from Producer's gas during each calendar month shall be a proportionate share of all of the gasoline and other liquefiable hydrocarbons produced and saved by Bankline at its Absorption Plant during said month. Said proportion shall bear the same relation to the total quantity of gasoline and other liquefiable hydrocarbons produced at said plant as the computed quantity of gasoline and other liquefiable hydrocarbons contained in Producer's gas

bears to the computed quantity of gasoline and other liquefiable hydrocarbons contained in all of the gas processed by Bankline during the same calendar month as determined from the meter readings and the tests herein mentioned. The aforesaid tests to determine the gasoline content of the gas delivered hereunder shall be made at a point as near the meter as is practicable and between the meter and the well or wells from which the gas is being received.

Bankline shall not be obligated to extract or manufacture from the gas delivered to it hereunder any liquefiable hydrocarbons other than the product commonly known as natural gasoline until such time as in its exclusive judgment the amount of such liquefiable hydrocarbons available for manufacture from the gas of Producer and of third parties which is processed in its plant can be disposed of in such quantities and at such prices as will justify the installation of the equipment and facilities necessary for their manufacture.

Producer shall be given at least twenty-four (24) hours' notice, written if demanded, of the time tests of the gas are to be made for determining the gasoline content thereof and/or the time the meters measuring the gas are to be inspected, calibrated, or adjusted, and shall be entitled to representation at all such times. The representative of Producer shall have full voice with the representative of Bankline as to the establishment of the gaso-

line content and the accuracy of the meter or meters measuring the gas received and delivered hereunder.

8. Bankline shall not be obligated to process the gas produced from Producer's wells on the subject premises for the extraction of the gasoline content thereof during such time as the average recoverable gasoline content of said gas is less than one-half gallon of 20.3-pound Reid vapor pressure gasoline per each thousand cubic feet of gas, determined in the manner specified in California Natural Gasoline Association Bulletin No. TS-351, or revisions thereof. In the event the average recoverable gasoline content of the gas shall be less than one-half gallon of 20.3-pound Reid vapor pressure gasoline per one thousand cubic feet of gas, at the option of Bankline all such gas may be handled and accounted for in the same manner as the residual gas available for delivery at the outlet of the plant, and in this event the gas shall be delivered to Bankline and marketed by Bankline under the same terms and conditions provided for the handling of and accounting for residual gas available for delivery to Producer or sale as specified in paragraph 9 hereof.

Bankline shall not be required to accept, process or handle the gas produced from any well or group of wells supplying gas to Bankline as a unit through one meter connection during such time as the total gas production from such well or group of wells is less than an average of fifty thousand (50,000) cubic feet per day; provided, however, that Bankline may accept, process or handle such gas

if it so desires, but its election to do so shall not bind it to continue to accept, process or handle such gas. Bankline shall not be required to accept from Producer hereunder any gas containing hydrogen sulphide in excess of five (5) grains per each one hundred (100) cubic feet of gas as determined by Tutweiler Test. Producer shall be entitled to make such other disposition as it may desire of the gas so rejected by Bankline in accordance with the terms of this provision. The suspension of operation by Bankline under such conditions shall not terminate or impair any of its right under this agreement with respect to other gas of Producer which is available to Bankline hereunder.

9. After the gas delivered and received hereunder shall have been processed for the extraction of the gasoline therefrom, Bankline shall be entitled to use, free of charge, such quantities of the residual gas as may be reasonably required for fuel purposes in connection with the operation of its plant; provided that the total volume of residual gas used by Bankline for fuel purposes in its plant shall be prorated among all of the operators delivering gas to Bankline's plant for processing on the basis of the total volume of gas delivered by each of said operators.

Bankline agrees to deliver to Producer for lease fuel, all of the residual gas it may need up to the total amount of residual gas remaining after deductions have been made for shrinkage and plant fuel as hereinabove provided. The delivery of such

dry gas to Producer shall be made to such lease described in this agreement as Producer may designate at a pressure of not less than five (5) pounds per square inch nor more than forty-five (45) pounds per square inch at the point of delivery.

Bankline agrees to use its best efforts to sell all of Producer's shares of such residual gas as is not required by Producer at the highest price it can obtain and to pay Producer fifty per cent (50%) of the total gross proceeds derived by Bankline from the sale of such gas, provided, however, that in the event all of the residual gas available for sale at the plant shall not be sold, Bankline shall prorate the total quantity of residual gas that is sold at such plant by Bankline to the various operators delivering gas to the plant for processing proportionally according to the respective amounts of residual gas available for sale by each operator.

Bankline shall not be required to store residual gas for future delivery to Producer.

Royalty payments covering the proceeds from the sale of residual gas shall be made by Bankline to Producer on or before the 20th day of the calendar month next succeeding that month in which the residual gas is sold.

10. Producer shall at all reasonable times during business hours have the right to inspect the records and accounts of Bankline relating to the production of gasoline and other liquefiable hydrocarbons in the plant wherein Producer's gas is processed here-

under for the purpose of determining the amount of gasoline and other liquefiable hydrocarbons produced, and the amount of residual gas sold and the selling price thereof, if any be sold.

11. Bankline agrees to furnish Producer with a report not later than the tenth (10th) day of each calendar month accounting for all gas received, gasoline and other liquefiable hydrocarbons produced, residual gas delivered to Producer, and residual gas sold during the preceding calendar month and such other pertinent data as Producer may require to enable it to determine the accuracy of Bankline's calculations.

12. Bankline agrees to take all gas which may be produced from Producer's wells on the subject premises and tendered to it by Producer at whatever pressure may be available at the outlet of Producer's gas traps or separators, provided, such gas traps and separators are installed and maintained by Producer in accordance with the provisions of paragraph 13 hereof. Producer warrants that it has the title to all gas delivered to Bankline hereunder.

Bankline shall not be accountable to Producer for any of Producer's gas which it is unable to process and/or conserve at its plant during the periods of peak production of any of Producer's wells. During the time or times when the total amount of gas available for processing in Bankline's plant from all sources is in excess of the capacity of Bankline's

said plant, Bankline's obligation to process Producer's gas hereunder shall be limited as follows: The plant capacity shall be allocated to the processing of gas available to Bankline for processing from Producer hereunder and all other operators in the Long Beach field in the same proportion that the total amount of gas so available from each of such other operators bears to the total amount of gas available from all of such operators.

13. Producer shall install and maintain at its sole expense all gas traps or oil and gas separators which are necessary and proper for efficiently separating the oil and gas produced by Producer on the subject premises in order to save and render available all of such gas for delivery to Bankline. Bankline shall have the right to inspect such equipment at all reasonable times.

Producer shall install at ground elevation all of the connections and other apparatus necessary for the delivery of the gas from its gas traps into Bankline's wet gas gathering system, including the regulators and other facilities necessary for maintaining the proper back pressure on the gas produced from Producer's wells on the subject premises and available for delivery to Bankline at such points.

14. Bankline shall install and maintain at its sole cost and expense a meter of standard make and design capable of accurately measuring all of the gas delivered and received hereunder from Producer's wells, it being understood that Bankline

shall not be required to install meters for measuring separately the gas produced from each of Producer's wells located on the subject premises.

All measurement of gas delivered and received hereunder shall be computed in cubic feet based on an absolute pressure of 14.73 pounds per square inch at a temperature of 60° Fahrenheit, in accordance with the procedure outlined in California Natural Gasoline Association Bulletin No. TS-353, or revisions thereof.

15. In the event that at any time or from time to time Bankline is required to pay any processing tax, or any other tax, license, or governmental charge, directly or indirectly, upon or measured by the gasoline and/or other liquefiable hydrocarbons manufactured from the gas of Producer which Producer receives as royalty, or the gasoline taken by it in exchange therefor, or upon the proceeds of the sale of such royalty gasoline or other liquefiable hydrocarbons, the manufacture thereof, or upon the production or transportation of the gas processed hereunder, or upon the dry gas delivered to Producer hereunder, or upon the proceeds of the sale of any dry gas to which Producer is entitled, Producer agrees to reimburse Bankline for the full amount of such processing tax, and/or any other tax, license or governmental charge paid by Bankline on or measured by Producer's share of such dry gas and/or gasoline and other liquefiable hydrocarbons. In the event Bankline is required to pay any severance or production tax on any gas

or gasoline delivered by Producer to Bankline, or any tax which is measured or allocated on production or severance of such gas and/or gasoline, Producer agrees to reimburse Bankline for the full amount of such severance or production tax, it being stipulated between the parties that the full incidence of such severance or production tax, regardless of the manner of levy or collection, shall be upon Producer.

16. Bankline agrees to pay promptly, before they become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed and maintained by Bankline upon the subject premises. In the event Bankline fails so to do, Producer may pay any such tax and Bankline shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of seven per cent (7%) per annum, upon demand being made therefor.

17. Bankline shall not suffer any lien or liens to be filed against the plant, pipelines, machinery and/or equipment, or any other property placed by Bankline upon the subject premises for work, labor, materials or supplies furnished in connection therewith, and if any such lien or liens are filed thereon, Bankline agrees to remove the lien or liens at its own expense and cost and shall pay any and all judgments which may be entered thereon or thereunder. Should Bankline fail, neglect, or refuse so to do, Producer shall have the right to pay any amount required to release any such lien or

liens or to defend any action brought thereon, and to pay any judgment therein, and Bankline shall be liable to Producer for all costs, counsel fees, and any amounts expended in defending any proceeding or the payment of any of the liens or any judgment obtained therefor.

18. In the event of default on the part of either party to this agreement in the performance of its obligations under this agreement, and such default shall not be remedied by the party in default within ten (10) days after receiving written notice thereof specifying the particulars of the default, then the party giving such written notice shall have the right to terminate or suspend this agreement, and thereupon all rights and obligations shall cease and determine or be suspended accordingly.

19. Bankline shall be entitled to remove, from time to time and within a reasonable time after the termination of this agreement, all pipe lines, connections, meters and other equipment heretofore or hereafter installed by it on the subject premises. Bankline agrees to remove all of the pipelines, connections, meters, pumps, and other equipment installed by Bankline upon the property of Producer within ten (10) days after receiving notice from Producer of Producer's intention to quitclaim its interest in such property.

20. All notices from Producer to Bankline may be sent by United States mail, postage prepaid, ad-

dressed to Bankline Oil Company, 437 South Hill Street, Los Angeles 13, California. All notices from Bankline to Producer may likewise be sent by United States mail, postage prepaid, addressed to M. K. Doumani, 6331 Hollywood Boulevard, Hollywood 28, California. Either party may change its mailing address to any other point within the State of California.

21. The non-performance by either party of its obligations hereunder shall be excused so long as such performance is prevented by accidents, fires, riots, strikes, lockouts and other labor disturbances, earthquakes, war, acts of God, acts of any government (whether foreign or domestic, federal, state, county or municipal), total or partial failure of transportation or delivery facilities or supplies, or any cause beyond the reasonable control of such party, whether similar to the foregoing causes or not. If this contract, the performance thereof, or any matter or thing connected therewith, be in conflict with any law, ordinance or regulation, whether of federal, state, or of lesser political subdivision, then the performance thereof may be discontinued while so in conflict therewith.

22. This agreement shall become effective as of the date hereof and, except as hereinbefore provided, shall remain in full force and effect for a period of five (5) years and thereafter for so long as Producer operates aforesaid properties or either or any of them.

23. This agreement shall continue in force and be binding upon the parties hereto, their successors and assigns, for and during the term and period of this agreement, and Bankline shall be free from time to time, as it may elect, to turn over gas received hereunder to another operator or plant for processing, in which event all of the provisions hereof shall continue to apply in like manner as though Bankline processed such gas in its plant.

In Witness Whereof, the parties hereto have executed this instrument in duplicate by their proper officers, who are thereunto duly authorized, on the day and year first above written.

[Seal] BANKLINE OIL COMPANY,

By /s/ L. L. AUBERT,
President, and

/s/ E. J. CASE,
Assistant Secretary.

M. K. DOUMANI,

/s/ M. K. DOUMANI,
Producer.

EXHIBIT No. 2-C

This Agreement, made and entered into this 6th day of December, 1932, by and between Bankline Oil Company, a California corporation, hereinafter designated as "Operator," and D. D. Dunlap, an individual, hereinafter designated as "Producer,"

Witnesseth

That

Whereas, Producer is the owner and/or lessee of those certain parcels of land situated in Signal Hill oil field, Los Angeles County, California, described as follows, to wit:

Lot "A" of the Weber Tract, as per map in Book 9, Page 87 of Maps, Records of Los Angeles County, California;

and

Whereas, Producer is the owner and/or lessee of the above described premises and is the owner of the natural gas produced therefrom and hereby guarantees his right and title to same; and

Whereas, Operator has erected and is operating a plant or plants in the Signal Hill oil field for the purpose of treating gas for the extraction of gasoline therefrom; and

Whereas, Operator in order to augment its supply of gas for said plant or plants desires to purchase and/or receive from Producer all of the gas which may be produced by Producer from the property above described, and Producer is willing and desires to sell and/or deliver to Operator all of the gas produced by Producer from the above-described property and hereby guarantees its right and title to same:

Now, Therefore, in consideration of the premises and of the covenants, agreements and payments

hereinafter set forth and other valuable considerations, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. Producer hereby agrees to furnish and deliver to Operator and Operator agrees to take and utilize in its plant or plants, subject to the terms and conditions of this agreement, natural gas produced from the above-described property during the life of this agreement except as provided in paragraphs seven, eight and nine hereof.

2. All gasoline condensed in the lines, pumps or traps of said Producer shall be considered as a part of the gas to be delivered to Operator and shall be accounted for by Operator as gasoline extracted from said gas.

3. Operator is granted the exclusive right to treat gas produced from the above described property for and during the period of this agreement.

4. Producer shall deliver the gas at the casing heads and/or at gas traps installed by Producer on the premises above described. Producer agrees to use his best efforts to prevent the inleakage of air in traps or lines. Operator shall furnish, install and maintain all pipe lines and connections from casing heads or traps to its plant or plants and such meters as may be necessary for the accurate measurement of the gas received from the property.

5. Producer, insofar as he has the right to do so, shall furnish right of ways for such pipe lines

and connections on the property. Producer hereby grants to Operator a right of way for its employees and vehicles over and across the lands of Producer hereinabove described for any and all purposes necessary or proper in connection with the business of Operator insofar as it pertains to the functions to be performed by Operator under the terms of this agreement. Operator shall be entitled to remove, within a reasonable time after the termination of this agreement, all pipe lines, connections, meters and other equipment installed by it.

6. Operator agrees to pay to Producer as royalty fifty per cent (50%) of the proceeds derived from the sale of gasoline extracted from said gas, or at Producer's option, as hereinafter provided, to deliver to Producer as royalty fifty per cent (50%) of the gasoline extracted from said gas.

Producer shall have the right to take his royalty gasoline in kind if he so desires, provided that he shall in such event serve Operator with thirty (30) days' advance notice in writing of such intention. An option once exercised to take such royalty either in cash or in kind shall not be changed for at least six (6) months unless agreed to by both parties hereto.

In event royalty gasoline shall be paid in kind, Operator shall provide ten (10) days' free storage of the royalty gasoline belonging to Producer in tanks provided by Operator; provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Operator.

In event Producer fails to remove said royalty gasoline from the tanks of Operator within the said ten-day period, Operator shall not be obligated to deliver said royalty gasoline to Producer except at such times and in such quantities as will not interfere with the sales and/or deliveries of gasoline which Operator is otherwise required to make from said plant.

Royalty payments shall be made by Operator to Producer on or before the 20th day of each calendar month next succeeding that in which the gasoline is produced.

7. It is understood that Producer is operating his property primarily for oil production and Operator agrees to handle the gas produced from Producer's property at pressures which in the opinion of Producer will not interfere with the production of oil from the leases. It is understood and agreed by and between the parties hereto that during the period of flush production or in event Producer insists on maintaining extremely low pressures on casingheads or gas traps, Operator shall not be obligated to take, treat or pay for gas produced and/or vented during such periods.

In event that the amount of gas produced from the properties of Producer, together with the amount of gas produced from properties of other producers with whom Operator has contracts for the treatment of gas, exceeds the capacity of the plant of Operator and said excess quantity is not sufficiently permanent in the judgment of Operator to

justify the construction of additional plant capacity, then during the period of said excess production the amount of gas of Producer treated in said plant shall be such pro rata of Producer's gas as the total amount of gas available from all producers bears to the amount of gas which can be treated.

Operator shall not be obligated to treat gas hereunder when the quantity of gas produced is so small as to render the treatment of same unprofitable to Operator.

Producer agrees not to treat or cool gas produced on the above described property in any manner that will cause the gasoline or a portion of the gasoline to be condensed or separated from the natural gas. Producer agrees to maintain the casingheads of all wells and all their connections thereon tight and in good condition to prevent an inleakage of air into the pipe lines of Operator. Should there be an inleakage of air occasioned by Producer not maintaining its equipment in proper condition, a proportionate deduction shall be made in the monthly settlement.

8. Operator shall not be obligated to utilize any gas in its plant or plants which contains less than five-tenths ($5/10$) of a gallon of gasoline per one thousand (1,000) cubic feet of gas unless Operator so desires. In the event Operator shall refuse or neglect to take and utilize in its plant or plants any gas available on the above described property for the reason that the gasoline content of the gas is less than five-tenths ($5/10$) of a gallon per one thousand

cubic feet, Operator agrees to use its best efforts and reserves the right to dispose of such gas in the same manner as provided for handling the residue dry gas from the plant or plants.

9. In event any suit is commenced either in law or in equity involving the title to the gas of Producer, or to the gasoline to which Producer is entitled under this agreement, or to any money to which Producer is entitled, then Operator during the pendency of any such suit may at its option either discontinue the taking of said gas until said suit be finally determined or may continue, nevertheless, to take said gas, and shall have the right thereupon to impound any moneys due to Producer to the joint account of Operator and Producer in any national bank in the city of Los Angeles, state of California.

10. Operator shall be entitled to treat at and by means of said plant or plants such quantities of gas as it may desire to take from other producers. Operator shall meter separately the gas received from Producer and from other producers whose gas is so taken and at least once a month shall test separately, according to a recognized method for testing gas, samples of gas received from Producer and from other producers. The amount of gasoline extracted from gas delivered by Producer shall be determined as a proportion of the total net gasoline extracted at such plant or plants, computed from said meter readings and said tests.

11. It is mutually understood and agreed that Operator shall be entitled to use, free of charge, as much of the resultant dry gas remaining after the gasoline shall have been extracted as it may require for fuel and power in the operation of its plant.

Of the dry gas remaining after above deductions have been made, Operator agrees to currently return to Producer at the property line nearest to the existing dry gas lines of Operator as much of the residue dry gas as may be necessary for fuel purposes and other producing activities of Producer on the said premises; provided, however, that Operator shall not be obligated to deliver such gas at a pressure exceeding twenty (20) pounds per square inch at the plant of Operator making such delivery. It is understood and agreed that Operator may deliver dry gas to Producer in excess of the amount of residue dry gas credited to Producer, but in such event Producer hereby agrees to pay Operator for the excess dry gas delivered at the current market price of residue dry gas sold or delivered from the plant of Operator making such delivery to Producer; or in event Operator, in order to meet the dry gas requirements of Producer, is required to purchase dry gas in the open market, then in this event Producer agrees to reimburse Operator for the excess dry gas furnished to Producer, at the same price Operator is required to pay for same.

12. In event Producer does not require all of the gas to be returned for the above-mentioned purposes, then Operator will use its best efforts to sell

the balance of the dry gas. In event of the sale of such residue dry gas by Operator, Operator shall pay to Producer on or before the 20th day of the next succeeding calendar month following that in which the sale occurs, seventy-five per cent (75%) of the proceeds derived by Operator from the sale of such residue dry gas; provided, however, that in event Operator is not able to sell the resulting dry gas or for any other reason fails and/or neglects to sell the resulting dry gas, then in such an event Operator shall be under no obligation whatsoever to Producer with respect to said dry gas.

13. Producer shall at all reasonable times during business hours have access to the accounts and records of Operator insofar as they pertain to matters arising under this agreement or for the purpose of verifying statements made hereunder.

14. Producer shall be entitled to require Operator to test meters at intervals of at least once each month and oftener in event same is necessary. Producer shall have the privilege, if he so desires, of having a representative present during all testing of the gas or the checking of meters registering the gas from the above described property.

15. Operator agrees to furnish Producer with a report not later than the 20th of each month accounting for the gasoline produced and the dry gas returned for lease operations or sold. It is agreed that any and all objections to such reports must be made to Operator in writing not later than fifteen

(15) days after receipt thereof by Producer; that the failure by Producer to make such objection in writing within said period of fifteen days shall create a conclusive presumption that such report is correct in all particulars and that after said fifteen-day period shall have elapsed without any such written objection having been made to Operator, Producer shall not thereafter have the right to question or dispute such report in any way.

16. In event at any time or from time to time Operator is required to pay any tax, license or governmental charge, directly or indirectly, upon that part of the gasoline manufactured from the gas of Producer to which Producer is entitled as royalty or upon the proceeds of the sale of such royalty gasoline, Producer shall reimburse Operator for the full amount of such tax, license or governmental charge so paid by Operator.

17. Operator agrees to promptly pay, before the same become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed or maintained by Operator upon any of the lands of Producer hereinabove described. In event that Operator fails so to do, Producer may pay any such tax and Operator shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of ten (10) per cent per annum, upon demand being made therefor.

18. Operator shall not suffer any lien or liens to be filed against the plants, pipelines, machinery

and equipment or any other property placed by it upon the lands of Producer, for work, labor, material or supplies furnished in connection therewith, and if any such lien or liens is filed thereon Operator agrees to remove the same at its own expense and cost and shall pay any judgments which may be entered thereon or thereunder. Should Operator fail, neglect or refuse so to do Producer shall have the right to pay any amount required to release any such lien or to defend any action brought thereon and to pay any judgment entered therein, and Operator shall be liable to Producer for all costs, damages and counsel fees and any amounts expended in defending any proceedings or the payment of any of said liens or any judgment obtained therefor.

19. The non-performance by either party of its obligations hereunder shall be excused so long and only to the extent that such performance is prevented by strikes, delays of transportation companies or other causes beyond the reasonable control of such party, whether similar or dissimilar to those above stated.

20. It is understood and agreed that in the determining of any question of fact or dispute as to any matter which may arise under this contract, the same shall be determined by a board of arbitrators to be composed of one member appointed by Producer and one member appointed by Operator and these two persons shall appoint a disinterested third person and the decision of the majority of the board

of arbitrators shall be binding upon both parties hereto. The decision of the arbitrators shall be a condition precedent to the right of action in this contract.

21. No provision of this contract shall be interpreted contrary to the rules and regulations of any regulatory body of the United States or of the State of California.

22. The term of this agreement shall be for a period of five (5) years from and after the date hereof and so long thereafter as gas may be produced in paying quantities from the above described property.

23. In case of default by either party in the performance of its obligations hereunder and the continuance of such default for thirty (30) days after written notice thereof specifying the particulars of the default, the party not in default shall be entitled to terminate or suspend this agreement and all rights and obligations hereunder shall thereupon cease and determine or be suspended accordingly.

24. All notices from Producer to Operator shall be sent by United States mail, postage prepaid, addressed to Bankline Oil Company, 634 South Spring Street, Los Angeles, California. All notices from Operator to Producer shall be likewise sent by United States mail, postage prepaid, addressed to D. D. Dunlap, Box 1147 East Burnett Street, Long Beach, California. Either party may change

its mailing address to any other point within the State of California.

25. This agreement shall continue in force and be binding upon the parties hereto, their heirs, executors, administrators, successors and/or assigns for and during the term and period of this agreement.

In Witness Whereof, the parties hereto have here-unto set their signatures and seals the day and year first above written.

[Seal] BANKLINE OIL COMPANY

By /s/ H. J. BARNESON,
Vice President, and

/s/ E. J. CASE,
"Operator."

/s/ D. D. DUNLAP,
"Producer."

State of California,
County of Los Angeles—ss.

On this 17th day of January, in the year nineteen hundred and 33, A.D., before me, Nina M. Brockus, a Notary Public in and for the said County of Los Angeles, State of California, residing therein, duly commissioned and sworn, personally appeared D. D. Dunlap, personally known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

In witness whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

/s/ NINA M. BROCKUS,
Notary Public in and for Los Angeles County, State
of California

EXHIBIT No. 2-D

(Copy)

This Agreement, made and entered into this 9th day of June, 1922, by and between the General Petroleum Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, hereinafter called the first party, and the Bankline Oil Company, likewise a California corporation, hereinafter called the second party,

Witnesseth:

That, whereas, the first party is the holder and owner of certain leases in what is known as the Signal Hill District, and

Whereas, first party desires to sell and second party desires to buy upon a royalty basis the gasoline which may be extracted from the gas produced by the first party from said lands in the Signal Hill District;

Now, therefore, in consideration of the sum of

Ten (\$10.00) Dollars each to the other in hand paid, receipt of which is hereby acknowledged, and the faithful performance of the covenants hereinafter expressed, it is agreed as follows:

First: The party of the second part will erect, equip, maintain and operate upon what is known as the Jasper Lease, being the east six hundred and sixty (660') feet of the north six hundred and thirty (630') feet of Block sixty-four (64), American Colony Tract, as per map recorded in Book nineteen (19), page eight (8), Miscellaneous Records of Los Angeles County, a plant or plants for the recovery of gasoline from casing-head gas, and will lay, maintain, remove and replace any and all pipe necessary to the operation of said plant or plants. However, the erection, operation and maintenance of said plant or plants shall in no manner interfere with the proper and efficient working or development of said lands above described, nor any part thereof, by the said first party, for the production of oil therefrom.

Second: The said party of the second part agrees to immediately commence preparations for the erection, maintenance and operation of an absorption plant for extracting the gasoline from the natural or casing-head gas produced by said party of the first part in said Signal Hill District, and to complete the same and have it in operation within ninety (90) days from the date of the execution of this contract. Such plant or plants shall be of sufficient size and capacity to treat all the gas of the

kind and quality hereinafter described that may be produced by said party of the first part from said premises, and the said party of the second part agrees that such plant or plants shall be of such efficiency as to remove approximately ninety (90) per cent of all of the recoverable gasoline content which such natural gas carries; and further agrees to provide suitable and efficient apparatus for protection against fire and to use only skilled and efficient help to keep the premises in and about the plant in a neat, clean and workmanlike manner; and further agrees to keep the plant in full operation continuously subject only to fires, strikes, acts of God, public enemies and other causes beyond the control of the second party, so long as not less than one million feet of gas per day shall be delivered by the first party to the second party.

Third: The second party further agrees to submit for approval to the first party plants and drawings of said plant previous to the installation thereof.

Fourth: It is understood and agreed that the first party is operating the wells in the Signal Hill District primarily for oil production and may at any time discontinue production on any or all thereof or redrill the same or make any changes in the operation of such wells or any of them, as in its judgment it may deem desirable, regardless of the effect such change may have on the amount or quality of the gas produced; and it is further

understood that the first party has not made and does not make any representations whatsoever as to the quantity, quality or pressure of gas.

Fifth: The first party hereby agrees to deliver to the second party at the traps or casing heads of the wells in said Signal Hill District during the life of this agreement as hereinafter set forth, all gas which is now or which may be hereafter produced by the first party from any or all wells located in said Signal Hill District, and the said second party shall have the right to apply such vacuum if any as the first party shall hereafter indicate, and the vacuum to be applied to such wells may be changed from time to time as conditions in such wells warrant, but such change can only be made upon the sanction and consent in writing of said first party.

Sixth: The second party agrees to pay to the first party for said gas a royalty based upon the average daily production of gasoline for any calendar month at the rate of thirty-three and one-third ($33\frac{1}{3}\%$) per cent of the gross amount of the gasoline extracted from the aforesaid gas.

Seventh: The first party hereby reserves the right to take the royalty either in money or gasoline, and further reserves the right to approve any contract the second party may make for the sale of the royalty gasoline in the event the first party elects to accept its royalty in money. An option once exercised to take either in money or in kind shall not be changed for at least six months. In the absence

of any written notice, it shall be deemed that the party of the first part elects to take its royalty in money.

Eighth: It is understood and agreed that in the event the first party elects to accept its royalty in money, it is to receive payment on the tenth day of the month for the production of the previous calendar month, and in the event the first party elects to accept its royalty in gasoline the same shall be stored free of charge by the second party for a period of ten days from and after the first day of the month following that in which the gasoline is produced.

Ninth: In this connection it is distinctly understood and agreed that the party of the second part shall not be obligated to make such installation or to treat gas containing four-tenths ($4/10$) of one gallon of gasoline per thousand cubic feet or less; unless the party of the second part may so elect, and in the event the said party of the second part shall refuse to treat gas containing four-tenths ($4/10$) or less of one gallon of gasoline per thousand cubic feet, the party of the first part may sell and dispose of such gas in any manner it may so desire.

Tenth: The second party agrees to deliver to the party of the first part after treatment a minimum of seventy (70%) per cent of the gas collected from the wells and put into the plant for treatment, and further agrees to deliver such gas at a pressure

sufficient to enable the first party to deliver said gas to a compressor plant to be erected adjacent to the plant of the second party, such pressure to be not less than ten pounds to the square inch, and in no event shall such pressure exceed one hundred pounds to the square inch unless at the consent of the first party.

Eleventh: It is further agreed that the second party shall have the privilege and option of treating gas in said plant other than that received from the first party, but it is distinctly understood and agreed that in this event orifice meters shall be installed on incoming and outgoing gas to and from the different owners, in order that at all times first party will secure and receive proper credit for the gas produced by it from its wells and received by the second party.

Twelfth: It is further agreed that the first party shall have free access to the plant at all times during business hours and that the books of the second party insofar as they refer to the affairs of the first party shall be open to its inspection.

Thirteenth: The second party agrees to erect such storage tanks upon the property as may be necessary to store the gasoline produced in said plant, and such tanks shall be insulated and of such type and equipment as to prevent an undue amount of evaporation.

Fourteenth: It is further agreed that the first party shall furnish the second party the pro rata

quantity of fuel used by the second party in the operation of said plant, and such pro rata quantity of fuel shall be based upon the total volume of gas handled in said plant.

Fifteenth: The second party further agrees to protect and hold harmless the first party on account of any litigation or damages that may arise by reason of method of treatment applied by said second party to said gas, or the design of the plant erected upon said premises, and also agrees to hold first party harmless on account of any accident or injury to any person or persons or any surrounding property that may arise out of the erection or operation or maintenance of said plant, and to pay all County, State and Government taxes that may be levied against said plant or its operation, not including taxes which the first party is required to pay on account of the royalty it received from the extraction of such gasoline.

Sixteenth: The first party hereby guarantees that it is the owner of and is lawfully entitled to deliver to said second party such gas as is now produced or may hereafter be produced in the said Signal Hill District, and will hold harmless said second party on account of any litigation that may hereafter arise between the parties hereto and any third party on account of the failure or pretended failure of the first party to deliver such gas to any other person or corporation than the second party hereto.

Seventeenth: In the event said second party shall treat in said plant gas other than that produced by

Witnesseth:

Whereas, the parties hereto have heretofore entered into a certain agreement, dated June 9, 1922, relating to treatment of natural gas for the extraction of gasoline therefrom, and certain practices have developed out of verbal agreements in respect thereto, which the agreement has not been formally modified to cover; and

Whereas, the parties hereto mutually desire to provide for the continuance of such arrangements by modification of said agreement.

Now, Therefore, in consideration of the premises and mutual covenants herein contained and other valuable consideration, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. Bankline hereby agrees to pay to Midway Gas Company the compression charges on the natural gas from General's leases to Bankline's Signal Hill Absorption Plant, in accordance with the following schedule, which has been heretofore agreed to:

Three (3) cents per one thousand (1,000) cubic feet, when the average daily volume during any particular calendar month is greater than four (4) million cubic feet.

Three and one-half ($3\frac{1}{2}$) cents per one thousand (1,000) cubic feet, when the average daily volume during any particular calendar month is between four (4) million and two (2) million cubic feet.

Four (4) cents per one thousand (1,000) cubic feet, when the average daily volume during any particular calendar month is less than two (2) million cubic feet.

Payments to be made by Bankline to Midway Gas Company on or before the twenty-fifth (25th) day of each month for the gas compressed by Midway Gas Company during the preceding calendar month.

2. General agrees to pay Bankline, on or before the twentieth (20th) of the month next succeeding that in which the dry gas is sold from Bankline's Signal Hill Absorption Plant, fifty (50) per cent of the gross proceeds derived from the sale of surplus residue dry gas to which General may be entitled, if any gas be sold. Gross proceeds are hereby defined as the amount of money received for the gas sold, less the amount of money paid to General Pipe Line Company for the use of their pipeline extending from Bankline's Signal Hill Absorption Plant to the General Pipe Line Company's Cherry Pump Station. It is understood and agreed that the payment of the fifty (50) per cent above mentioned is to be made only on actual sales of residue dry gas and is not intended to include dry gas delivered to General's leases for development or operation of same.

3. It is agreed that Section Fourteen (14) of the agreement of June 9, 1922, above referred to is hereby revised to read as follows:

"It is further agreed that the First Party shall furnish Second Party the pro rata quantity of fuel

used by Second Party in the operation of said plant, and such pro rata quantity of fuel shall be based upon the total volume of wet gas handled in said plant, provided further, however, that the pro rata share of the fuel furnished by First Party shall not exceed thirty (30) per cent of the volume of wet gas from First Party's leases furnishing wet gas to said plant."

"First Party" refers to General Petroleum Corporation of California and "Second Party" refers to Bankline Oil Company.

4. General hereby grants to Bankline the privilege of using the existing dry gas distributing system owned by General and at present in use by Bankline, for the purpose of transporting residual dry gas to General's leases for use in connection with the development and/or operation of same and also for the purpose of delivering, upon General's order, residual dry gas to any point selected by General, provided, however, that point of delivery of the gas is located on or adjacent to the said dry gas distributing system mentioned herein.

General also hereby grants to Bankline the privilege of using General's existing dry gas distributing system referred to above for the purpose of delivering residual dry gas from Bankline's Signal Hill Absorption Plant to properties owned by persons, firms or corporations other than General with whom Bankline has contractual obligations concerning treatment of wet gas and redelivery of the residual dry gas for development and/or operation of the

property; provided, however, that owing to the fact that no charge is made to Bankline for such use of General's dry gas distributing system, Bankline shall discontinue the use of General's dry gas distributing system for the purpose of delivering residual dry gas to persons, firms or corporations other than General if and when, in General's opinion, such use of the said dry gas distributing system shall interfere with the delivery of gas to General.

It is understood and agreed by and between the parties hereto that nothing contained in Sections 4 or 5 hereof shall be construed as obligating General to extend the dry gas system herein mentioned or to lay additional pipelines to enable Bankline to deliver residual dry gas to comply with its contractual obligations.

5. Bankline agrees to erect, install and maintain sufficient orifice meters or other approved measuring devices capable of accurately measuring all of the gas transported by means of the wet gas and dry gas distributing systems mentioned in Section 4 hereof and to test the meters at least twice each month, at intervals of approximately fifteen (15) days, at which times General shall have the right to have a representative present to witness the tests made.

Bankline also agrees, at its own expense, to compute the volume of gas passed through the meters as shown on the meter charts, rendering a statement of the computed volumes to General for verification, within five (5) days after the date meter chart was

removed from the meter. General agrees to check the reading of the charts and to return same to Bankline, together with a list of discrepancies found, if any be found, within five (5) days after the receipt thereof by General.

6. All the terms and provisions of the above-mentioned contract of June 9, 1922, shall remain in full force and effect except as the same are herein specifically modified.

7. The term of this agreement shall be coexistent with the said agreement first above referred to, dated June 9, 1922, by and between the parties hereto.

In Witness Whereof, the parties hereto have hereunto set their signatures and seals the day and year first above mentioned.

[Corporate Seal]

GENERAL PETROLEUM CORPORATION OF
CALIFORNIA,

By R. E. MAYNARD,
Vice-President;

By D. W. WOODS,
Secretary.

[Corporate Seal]

BANKLINE OIL COMPANY,

By H. J. BARNESON,
Vice-President;

By VICTORIA H. BERGER,
Asst. Secretary.

Acknowledged on September 20, 1927, by H. J. Barneson, Vice-President and Victoria H. Berger, Asst. Secretary of Bankline Oil Company before Nina M. Broekus, N.P. Los Angeles County.

EXHIBIT No. 2-E

Agreement for the Treatment of Natural Gas

This Agreement, made and entered into this 1st day of October, 1938, by and between Bankline Oil Company, a California corporation, hereinafter designated as "Operator," and Incorporated Production Co., hereinafter designated as "Producer,"

Witnesseth:

Whereas, Producer is the owner and/or lessee of those certain parcels of land situated in the Signal Hill oil field, Los Angeles County, California, described as follows, to wit:

That certain portion of Farm Lot Fifty-nine (59) of the American Colony Tract, in the County of Los Angeles, State of California, as per map recorded in Book 19, Pages 89 and 90, Miscellaneous Records of said County, and more particularly described as follows:

Beginning at the Southeasterly corner of Farm Lot Fifty-nine (59) as per map thereof recorded in Book 19, Pages 89 and 90 et seq., Miscellaneous Records of Los Angeles County,

California; thence westerly along the Southerly line of said Farm Lot Fifty-nine (59) one hundred eighteen (118) feet to a point; thence north sixty-eight (68) degrees, nineteen minutes (19') east one hundred sixty-seven and eighty-seven hundreds (167.87) feet to a point; thence east fifty-six (56) feet to a point in the easterly line of said Farm Lot Fifty-nine (59) one hundred fifty-six (156) feet to the point of beginning.

and

Whereas, Producer is the owner and/or lessee of the above-described premises and is the owner of the natural gas produced therefrom and hereby guarantees its right and title to same; and

Whereas, Operator has erected and is operating a plant or plants in the Signal Hill oil field for the purpose of treating natural gas for the extraction of natural gasoline therefrom; and

Whereas, Operator, in order to augment its supply of natural gas for said plant or plants, desires to purchase and/or receive from Producer all of the natural gas which may be produced by Producer from the property above described, and Producer is willing and desires to sell and/or deliver to Operator all of the natural gas produced by Producer from the above-described property, and hereby guarantees its right and title to same;

Now, Therefore, in consideration of the premises and of the covenants, agreements and payments

hereinafter set forth and other valuable considerations, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. Producer hereby agrees to furnish and deliver to Operator and Operator agrees to take and utilize in its plant or plants, subject to the terms and conditions of this agreement, all natural gas produced from the above-described property during the life of this agreement, except as provided in paragraphs 7, 8 and 9 hereof.

2. All natural gasoline condensed in the lines, pumps, or traps of said Producer shall be considered as a part of the natural gas to be delivered to Operator and shall be accounted for by Operator as natural gasoline extracted from said natural gas.

3. Operator is granted the exclusive right to treat natural gas produced from the above-described property for and during the period of this agreement.

4. Producer shall deliver the natural gas at the casingheads and/or at gas traps installed by Producer on the premises above described. Producer agrees to use its best efforts to prevent the leakage of air in traps or lines. Operator shall furnish, install and maintain all pipelines and connections from casingheads or traps to its plant or plants and such meters as may be necessary for the accurate measurement of the natural gas received from the property.

5. Producer, in so far as it has the right to do so, shall furnish rights of way for such pipelines and connections on the property. Producer hereby grants to Operator a right of way for its employees and vehicles over and across the lands of Producer hereinabove described for any and all purposes necessary or proper in connection with the business of Operator in so far as it pertains to the functions to be performed by Operator under the terms of this agreement. Operator shall be entitled to remove, within a reasonable time after the termination of this agreement, all pipelines, connections, meters and other equipment installed by it.

6. Operator agrees to pay to Producer as royalty $33\frac{1}{3}$ per cent of the proceeds derived from the sale of natural gasoline extracted from said natural gas, or, at Producer's option as hereinafter provided, to deliver to Producer as royalty $33\frac{1}{3}$ per cent of the natural gasoline extracted from said natural gas.

Producer shall have the right to take its royalty natural gasoline in kind if it so desires, provided that it shall in such event serve Operator with thirty (30) days' advance notice in writing of such intention. An option once exercised to take such royalty either in cash or in kind shall not be changed for at least six (6) months unless agreed to by both parties hereto.

In event royalty natural gasoline shall be paid in kind, Operator shall provide ten (10) days' free storage of the royalty natural gasoline belonging to

Producer in tanks provided by Operator; provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Operator.

In event Producer fails to remove said royalty natural gasoline from the tanks of Operator within the said ten-day period, Operator shall not be obligated to deliver said royalty natural gasoline to Producer except at such times and in such quantities as will not interfere with the sales and/or deliveries of natural gasoline which Operator is otherwise required to make from said plant.

Royalty payments shall be made by Operator to Producer on or before the 20th day of each calendar month next succeeding that in which the natural gasoline is produced.

7. It is understood that Producer is operating its property primarily for oil production, and Operator agrees to handle the natural gas produced from Producer's property at pressures which in the opinion of Producer will not interfere with the production of oil from the leases. It is understood and agreed by and between the parties hereto that during the period of flush production, or in event Producer insists on maintaining extremely low pressures on casingheads or gas traps, Operator shall not be obligated to take, treat or pay for natural gas produced and/or vented during such periods.

In event that the amount of natural gas produced from the properties of Producer, together

with the amount of natural gas produced from properties of other producers with whom Operator has contracts for the treatment of natural gas, exceeds the capacity of the plant or plants of Operator, and said excess quantity is not sufficiently permanent in the judgment of Operator to justify the construction of additional plant capacity, then during the period of said excess production the amount of natural gas of Producer treated in said plant shall be such pro rata of Producer's natural gas as the total amount of natural gas available from all producers bears to the amount of natural gas which can be treated.

Operator shall not be obligated to treat natural gas hereunder when the quantity of natural gas produced is so small as to render the treatment of same unprofitable to Operator.

Producer agrees not to treat or cool natural gas produced on the above-described property in any manner that will cause the natural gasoline or a portion of the natural gasoline to be condensed or separated from the natural gas. Producer agrees to maintain the casing heads of all wells and all their connections thereon tight and in good condition to prevent an inleakage of air into the pipelines of Operator. Should there be an inleakage of air occasioned by Producer not maintaining its equipment in proper condition, a proportionate deduction shall be made in the monthly settlement.

8. Operator shall not be obligated to utilize any natural gas in its plant or plants which contains

less than five-tenths ($5/10$) of a gallon of natural gasoline per one thousand (1000) cubic feet of gas unless Operator so desires. In event Operator shall refuse or neglect to take and utilize in its plant or plants any natural gas available on the above-described property for the reason that the natural gasoline content of the natural gas is less than five-tenths of a gallon per one thousand cubic feet, Operator agrees to use its best efforts and reserves the right to dispose of such natural gas in the same manner as provided for handling the residue dry gas from the plant or plants.

9. In event any suit is commenced either in law or in equity involving the title to the natural gas of Producer, or to the natural gasoline to which Producer is entitled under this agreement, or to any money to which Producer is entitled, then Operator during the pendency of any such suit may at its option either discontinue the taking of said natural gas until said suit be finally determined or may continue nevertheless to take said natural gas, and shall have the right thereupon to impound any moneys due to Producer to the joint account of Operator and Producer in any national bank in the City of Los Angeles, State of California.

10. Operator shall be entitled to treat at and by means of said plant or plants such quantities of natural gas as it may desire to take from other producers. Operator shall meter separately the natural gas received from Producer and from other

producers whose natural gas is so taken, and at least once a month shall test separately, according to a recognized method for testing gas, samples of natural gas received from Producer and from other producers. The amount of natural gasoline extracted from natural gas delivered by Producer shall be determined as a proportion of the total net natural gasoline extracted at such plant or plants, computed from said meter readings and said tests.

11. It is mutually understood and agreed that Operator shall be entitled to use, free of charge, as much of the residue dry gas remaining after the natural gasoline shall have been extracted as it may require for fuel and power in the operation of its plant. It is understood that "residue dry gas," as referred to in this agreement, is the amount of dry natural gas remaining after deducting from the total amount of natural gas delivered for treatment the amount of natural gas lost or consumed through shrinkage due to the extraction of the natural gasoline contained therein.

Of the residue dry gas remaining after above deductions have been made, Operator agrees to currently return to Producer at the property line nearest to the existing dry gas lines of Operator as much of the residue dry gas as may be necessary for fuel purposes and other producing activities of Producer on the said premises; provided, however, that Operator shall not be obligated to deliver such residue dry gas at a pressure exceeding twenty (20) pounds per square inch at the plant of Operator

making such delivery. It is understood and agreed that Operator may deliver residue dry gas to Producer in excess of the amount of residue dry gas credited to Producer, but in such event Producer hereby agrees to pay Operator for the excess residue dry gas delivered at the current market price of residue dry gas sold or delivered from the plant of Operator making such delivery to Producer; or in event Operator, in order to meet the dry gas requirements of Producer, is required to purchase dry gas in the open market, then Producer agrees to reimburse Operator for the excess dry gas furnished to Producer, at the same price Operator is required to pay for same.

12. In event Producer does not require all of the remaining residue dry gas to be returned to Producer for fuel purposes, then Operator will use its best efforts to sell the balance of the remaining residue dry gas. In event of the sale of such remaining residue dry gas by Operator, Operator shall pay to Producer, on or before the 20th day of the next succeeding calendar month following that in which the sale occurs, fifty per cent (50%)—of the proceeds derived by Operator from the sale of such remaining residue dry gas; provided, however, that in event Operator is unable to sell the remaining residue dry gas, then Operator shall be under no obligation whatsoever to Producer with respect to said remaining residue dry gas.

13. Producer shall at all reasonable times during business hours have access to the accounts and

records of Operator insofar as they pertain to matters arising under this agreement or for the purpose of verifying statements made hereunder.

14. Producer shall be entitled to require Operator to test meters at intervals of at least once each month and oftener in event same is necessary. Producer shall have the privilege if it so desires of having a representative present during all testing of the natural gas or the checking of meters registering the amount of natural gas from the above-described property.

15. Operator agrees to furnish Producer with a report not later than the 20th of each month accounting for the natural gasoline produced and the residue dry gas returned for lease operations or sold. It is agreed that any and all objections to such reports must be made to Operator in writing not later than fifteen (15) days after receipt thereof by Producer; that the failure by Producer to make such objection in writing within said period of fifteen days shall create a conclusive presumption that such report is correct in all particulars, and that after said fifteen-day period shall have elapsed without any such written objection having been made to Operator, Producer shall not thereafter have the right to question or dispute such report in any way.

16. In event at any time or from time to time Operator is required to pay any tax, license or governmental charge, directly or indirectly, upon that part of the natural gasoline manufactured from the natural gas of Producer to which Pro-

ducer is entitled as royalty, or upon the proceeds of the sale of such royalty natural gasoline, Producer shall reimburse Operator for the full amount of such tax, license or governmental charge so paid by Operator.

17. Operator agrees to promptly pay, before the same become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed or maintained by Operator upon any of the lands of Producer hereinabove described. In event Operator fails so to do, Producer may pay any such tax and Operator shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of ten per cent (10%) per annum, upon demand being made therefor.

18. Operator shall not suffer any lien or liens to be filed against the plants, pipelines, machinery and equipment or any other property placed by it upon the lands of Producer, for work, labor, material or supplies furnished in connection therewith, and if any such lien or liens are filed thereon operator agrees to remove the same at its own expense and cost and shall pay any judgments which may be entered thereon or thereunder. Should Operator fail, neglect or refuse so to do, Producer shall have the right to pay any amount required to release any such lien or to defend any action brought thereon and to pay any judgment entered therein, and Operator shall be liable to Producer for all costs, damages and counsel fees and any amounts expended in defend-

ing any proceedings or the payment of any of said liens or any judgment obtained therefor.

19. The nonperformance by either party of its obligations hereunder shall be excused so long and only to the extent that such performance is prevented by strikes, lockouts, delays of transportation companies, interference of governmental authority, or other causes beyond the reasonable control of such party, whether similar or dissimilar to those above stated, or whenever and for so long as such performance is in violation of any governmental order or regulation.

20. It is understood and agreed that in the determining of any question of fact or dispute as to any matter which may arise under this agreement, the same shall be determined by a board of arbitrators to be composed of one member appointed by Producer and one member appointed by Operator, and these two persons shall appoint a disinterested third person, and the decision of the majority of the board of arbitrators shall be binding upon both parties hereto. The decision of the arbitrators shall be a condition precedent to the right of action in this agreement.

21. No provision of this contract shall be interpreted contrary to the rules and regulations of any regulatory body of the United States or of the State of California.

22. The term of this agreement shall be for a period of five (5) years and for so long thereafter

as oil and/or gas shall be produced from the property.

23. In case of default by either party in the performance of its obligations hereunder and the continuance of such default for thirty (30) days after written notice thereof specifying the particulars of the default, the party not in default shall be entitled to terminate or suspend this agreement, and all rights and obligations hereunder shall thereupon cease and determine or be suspended accordingly.

24. Any notices hereunder shall be sent by registered mail, to Operator at 634 South Spring Street, Los Angeles, California, and to Producer at 637 E. Willow Street, City of Signal Hill, County of Los Angeles, California, unless and until either thereof shall change the place of notice by written communication sent to the other by registered mail.

25. This agreement in all of its terms and conditions shall constitute a covenant running with the lands hereinbefore described, and as such shall be binding upon the parties hereto and their respective assigns or successors in interest. Producer covenants and agrees with Operator that in event Producer shall at any time desire to convey, assign or transfer any rights in and to said lands, or any portion thereof, or in, to or under this agreement, to any third party that it will forthwith notify said third party of the terms and conditions of this agreement and require said third party as a part of any transaction involving any such conveyance, assignment or transfer to accept and agree to be bound by each and

all thereof, thereafter submitting documentary evidence of all thereof to Operator.

In Witness Whereof, the parties hereto have caused this instrument to be executed the day and year first hereinabove written.

INCORPORATED
PRODUCTION CO.,

By /s/ G. C. NELSON, and
/s/ L. BROOKS,
“Producer.”

BANKLINE OIL COMPANY,

By /s/ J. L. BARNESON,
Vice President; and
/s/ E. J. CASE,
Asst. Secretary,
“Operator.”

EXHIBIT No. 2-F

This Agreement, made and entered into this 1st day of January, 1952, by and between Bankline Oil Company, a California corporation, hereinafter designated as “Bankline,” first party, and Progressive Oil Company, a Co-partnership of Wayne Mills and Kenneth Mills, hereinafter designated as “Producer,” second party;

Witnesseth:

That, Whereas, Producer represents that it has the exclusive right to dispose of the natural gas produced by it from its wells located upon certain lands in the Long Beach oil field, Los Angeles County, California, which lands for the purpose of this agreement are for convenience hereinafter referred to as the "subject premises" and are described as follows:

Kingsland No. 7 located on Lots No. 16 to No. 20, inclusive, Block 12, Hillside Addition, City of Signal Hill in the County of Los Angeles, State of California.

And, Whereas, Bankline desires to receive from Producer for the purpose of extracting natural gasoline therefrom all of the natural gas which may be produced by Producer from its wells located on the subject premises, and Producer is willing and desires to deliver to Bankline all of the natural gas so produced from said premises during the time this agreement shall be in full force and effect, and hereby warrants its right and title to such natural gas;

Now, Therefore, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. For the purpose of this agreement the follow-

ing words or groups of words when used herein will have the following respective meanings, namely:

Gas—

The term "gas" shall be deemed to mean all gas in its natural state and include as well all gas that may in any way or for any cause flow, arise, or be extracted from the wells on the subject premises, and all condensate collected from gas after the delivery thereof into Bankline's gas gathering system.

Residual Gas—

The term "residual gas" is defined as the amount of dry gas remaining from the total amount of gas delivered to Bankline for processing after deducting therefrom the amount of gas lost through shrinkage due to the extraction of the gasoline content thereof. This shrinkage factor shall, for the purpose of this agreement, be 27 cubic feet of gas for each gallon of gasoline extracted from the gas and 35 cubic feet of gas for each gallon of other liquefiable hydrocarbons extracted from such gas.

Gasoline—

The term "gasoline" is defined as the product commonly known as natural gasoline of the quality currently manufactured at Bankline's Absorption Plant from the gas received from other sources.

Other Liquefiable Hydrocarbons—

The term "other liquefiable hydrocarbons" is defined as propane and butane or mixtures thereof other than natural gasoline which may from time to time be manufactured or extracted in liquid form from the gas received and delivered hereunder.

2. Subject to the terms and conditions hereof, Producer agrees to deliver to Bankline and Bankline agrees to receive from Producer, for the purpose of extracting gasoline therefrom, all of the gas produced from Producer's wells located on the subject premises during the life of this agreement.

3. The delivery of all gas to Bankline hereunder shall be made by Producer at gas traps installed by Producer at or adjacent to the wells for the purpose of separating the gas from the crude oil. Producer agrees to keep the casing heads and connections of all its wells tight and in good condition in order to prevent inleakage of air into the pipeline, and when any well or wells shall be taken out of service for repairs, or for any other purpose, to shut off such wells from the collection or gathering main by suitable stopcocks to be furnished by Bankline. Should there be any inleakage of air occasioned by Producer not maintaining its equipment in proper condition, the gas may be turned to air until the condition causing the inleakage of air shall have been corrected.

Bankline shall have the right to recover all gasoline condensed in the pipelines, sumps, or pipeline traps downstream from the point of measurement and testing, and the condensate so recovered by Bankline shall be considered as a part of the gas delivered to Bankline hereunder and shall be accounted for accordingly. Producer shall provide and install, as required by Bankline, suitable sumps or tanks in which to drain any crude oil collected in the

pipelines through which gas is taken by Bankline from Producer hereunder.

4. Bankline shall furnish, install and maintain, at its own expense, all necessary pipelines and connections from the traps to the plant, as hereinafter provided. Producer hereby grants to Bankline, subject to its rights to do so, the right at all times during the life of this agreement to install required equipment and lines and maintain, repair, renew, replace and/or change the size of all necessary pipelines and other equipment installed by Bankline upon and across the subject premises, and shall at all times during the life of this agreement have full rights of ingress and egress.

Bankline shall indemnify Producer against and hold it harmless from any and all liability for damages to persons or property caused by the operations of Bankline on the subject premises.

5. Bankline shall maintain its plant, pipeline and other facilities in first class condition in order to avoid any unnecessary loss of gas from the time the gas enters the pipeline at the point or points where the gas is delivered to Bankline, and shall operate its plant wherein such gas is processed in an efficient and workmanlike manner consistent with usual and economic plant operations so that a maximum quantity of gasoline of the quality currently manufactured at its said plant will be extracted from the gas delivered to it hereunder.

6. The quantity of gasoline and other liquefiable

hydrocarbons extracted and saved from the gas delivered to Bankline hereunder, which Bankline shall deliver to Producer as royalty, shall be fifty per cent (50%) of the total quantity of gasoline and other liquefiable hydrocarbons so extracted and saved from Producer's gas during each calendar month as determined by the test referred to in Paragraph 7 hereof.

Producer shall have the right within thirty (30) days after giving Bankline notice of its intention to take payment of its royalty in money or in kind. An option once exercised to take such royalty either in money or in kind shall not be changed for at least thirty (30) days unless such change is agreed to by both of the parties hereto.

Producer shall be entitled to ten (10) days' free storage of its royalty gasoline and other liquefiable hydrocarbons in tanks provided by Bankline, provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Bankline. Delivery of Producer's royalty gasoline and other liquefiable hydrocarbons shall be made at the plant where produced or at some other point mutually agreeable to the parties hereto.

Deliveries of gasoline by Bankline to Producer hereunder shall be made, at Producer's option, either into tank trucks or pipelines installed and maintained by Producer. In the event the gasoline is loaded into tank trucks, the number of gallons delivered shall be computed on the basis of the number of gallons gauged in such tank trucks at time of

loading. In the event the gasoline is delivered into pipeline, the number of gallons so delivered to Producer shall be computed on the basis of the number of gallons metered from Bankline's tanks from which such shipments are made. All such measurements of gasoline shall be corrected to a temperature of 60° Fahrenheit. All samples for determining the quality of the gasoline delivered by one party to the other hereunder shall be taken from the trucks into which such deliveries are made or from the tanks from which pipeline shipments are made, depending upon the method of delivery.

In the event Bankline is not given notice of Producer's intention to take its royalty interest in kind, it shall be deemed that Producer desires to receive its royalty interest in money, and Bankline agrees to pay Producer a proportion of the total gross proceeds received by Bankline from the sale at its plant of the gasoline and other liquefiable hydrocarbons extracted by it from the gas delivered to it by Producer hereunder calculated at the hereinabove specified royalty rate.

If Producer shall not elect to take its royalty production in kind, and if in such event the gasoline extracted from the gas delivered and received hereunder is not sold by Bankline to third parties, then Bankline agrees to purchase Producer's said royalty share of such gasoline at the Standard Oil Company's posted price in the Long Beach oil field for gasoline of like Reid vapor pressure as the gasoline

extracted by Bankline at its said plant during the same calendar month.

Royalty payments shall be made by Bankline to Producer on or before the 20th day of the calendar month next succeeding the month in which the gasoline is produced.

7. Bankline shall be entitled to process at and by means of its plant such quantities of gas as it may desire to take from operators other than Producer, provided, however, that in such event Bankline shall meter separately the gas received from Producer and from such other operators whose gas is so processed. As often as Bankline deems necessary, it shall test separately samples of gas received from Producer and from other operators whose gas is so received by Bankline, in accordance with the methods specified in California Natural Gasoline Association Bulletin No. TS-351, or revisions thereof. The natural gasoline content shall be determined by the rectified test, and the other hydrocarbon contents shall be determined by the difference between the 30#-32° F test and the rectified test or any other method which shall be mutually agreed upon by Producer and Bankline.

For the purpose of determining the royalty to which Producer shall be entitled hereunder, it is agreed that the amount of gasoline and other liquefiable hydrocarbons extracted and saved from Producer's gas during each calendar month shall be a proportionate share of all of the gasoline and other liquefiable hydrocarbons produced and saved by

Bankline at its Absorption Plant during said month. Said proportion shall bear the same relation to the total quantity of gasoline and other liquefiable hydrocarbons produced at said plant as the computed quantity of gasoline and other liquefiable hydrocarbons contained in Producer's gas bears to the computed quantity of gasoline and other liquefiable hydrocarbons contained in all of the gas processed by Bankline during the same calendar month as determined from the meter readings and the tests herein mentioned. The aforesaid tests to determine the gasoline content of the gas delivered hereunder shall be made at a point as near the meter as is practicable.

Bankline shall not be obligated to extract or manufacture from the gas delivered to it hereunder any liquefiable hydrocarbons other than the product commonly known as natural gasoline until such time as in its exclusive judgment the amount of such liquefiable hydrocarbons available for manufacture from the gas of Producer and of third parties which is processed in its plant can be disposed of in such quantities and at such prices as will justify the installation of the equipment and facilities necessary for their manufacture.

Producer shall be given at least twenty-four (24) hours' notice, written if demanded, of the time tests of the gas are to be made for determining the gasoline content thereof and/or the time the meters measuring the gas are to be inspected, calibrated, or adjusted, and shall be entitled to representation at

all such times. The representative of Producer shall have full voice with the representative of Bankline as to the establishment of the gasoline content and the accuracy of the meter or meters measuring the gas received and delivered hereunder.

8. Bankline shall not be obligated to process the gas produced from Producer's wells on the subject premises for the extraction of the gasoline content thereof during such time as the average recoverable gasoline content of said gas is less than one-half gallon of 20.3-pound Reid Vapor pressure gasoline per each thousand cubic feet of gas, determined in the manner specified in California Natural Gasoline Association Bulletin No. TS-351, or revisions thereof. In the event the average recoverable gasoline content of the gas shall be less than one-half gallon of 20.3-pound Reid Vapor pressure gasoline per one thousand cubic feet of gas, at the option of Bankline all such gas may be handled and accounted for in the same manner as the residual gas available for delivery at the outlet of the plant, and in this event the gas shall be delivered to Bankline and marketed by Bankline under the same terms and conditions provided for the handling of and accounting for residual gas available for delivery to Producer or sale as specified in paragraph 9 hereof.

Bankline shall not be required to accept, process or handle the gas produced from any well or group of wells supplying gas to Bankline as a unit through one meter connection during such time as the total gas production from such well or group of wells is

less than an average of fifty thousand (50,000) cubic feet per day; provided, however, that Bankline may accept, process or handle such gas if it so desires, but its election to do so shall not bind it to continue to accept, process or handle such gas. Bankline shall not be required to accept from Producer hereunder any gas containing hydrogen sulphide in excess of five (5) grains per each one hundred (100) cubic feet of gas as determined by Tutweiler Test. Producer shall be entitled to make such other disposition as it may desire of the gas so rejected by Bankline in accordance with the terms of this provision. The suspension of operation by Bankline under such conditions shall not terminate or impair any of its right under this agreement with respect to other gas of Producer which is available to Bankline hereunder.

9. After the gas delivered and received hereunder shall have been processed for the extraction of the gasoline therefrom, Bankline shall be entitled to use, free of charge, such quantities of the residual gas as may be reasonably required for fuel purposes in connection with the operation of its plant; provided that the total volume of residual gas used by Bankline for fuel purposes in its plant shall be prorated among all of the operators delivering gas to Bankline's plant for processing on the basis of the total volume of gas delivered by each of said operators.

Bankline agrees to deliver to Producer for lease fuel, all of the residual gas it may need up to the total amount of residual gas remaining after deduc-

tions have been made for shrinkage and plant fuel as hereinabove provided. The delivery of such dry gas to Producer shall be made to such lease described in this agreement as Producer may designate at a pressure of not less than five (5) pounds per square inch nor more than forty-five (45) pounds per square inch at the point of delivery.

Bankline agrees to use its best efforts to sell all of Producer's share of such residual gas as is not required by Producer at the highest price it can obtain and to pay Producer fifty per cent (50%) of the total gross proceeds derived by Bankline from the sale of such gas, provided, however, that in the event all of the residual gas available for sale at the plant shall not be sold, Bankline shall prorate the total quantity of residual gas that is sold at such plant by Bankline to the various operators delivering gas to the plant for processing proportionally according to the respective amounts of residual gas available for sale by each operator.

Bankline shall not be required to store residual gas for future delivery to Producer.

Royalty payments covering the proceeds from the sale of residual gas shall be made by Bankline to Producer on or before the 20th day of the calendar month next succeeding that month in which the residual gas is sold.

10. Producer shall at all reasonable times during business hours have the right to inspect the records and accounts of Bankline relating to the production

of gasoline and other liquefiable hydrocarbons in the plant wherein Producer's gas is processed hereunder for the purpose of determining the amount of gasoline and other liquefiable hydrocarbons produced, and the amount of residual gas sold and the selling price thereof, if any be sold.

11. Bankline agrees to furnish Producer with a report not later than the tenth (10th) day of each calendar month accounting for all gas received, gasoline and other liquefiable hydrocarbons produced, residual gas delivered to Producer, and residual gas sold during the preceding calendar month and such other pertinent data as Producer may require to enable it to determine the accuracy of Bankline's calculations.

12. Bankline agrees to take all gas which may be produced from Producer's wells on the subject premises and tendered to it by Producer at whatever pressure may be available at the outlet of Producer's gas traps or separators, provided, such gas traps and separators are installed and maintained by Producer in accordance with the provisions of paragraph 13 hereof. Producer warrants that it has the title to all gas delivered to Bankline hereunder.

Bankline shall not be accountable to Producer for any of Producer's gas which it is unable to process and/or conserve at its plant during the periods of peak production of any of Producer's wells. During the time or times when the total amount of gas available for processing in Bankline's plant from all sources is in excess of the capacity of Bankline's said plant, Bankline's obligation to process Produc-

er's gas hereunder shall be limited as follows: The plant capacity shall be allocated to the processing of gas available to Bankline for processing from Producer hereunder and all other operators in the Long Beach field in the same proportion that the total amount of gas so available from each of such other operators bears to the total amount of gas available from all of such operators.

13. Producer shall install and maintain at its sole expense all gas traps or oil and gas separators which are necessary and proper for efficiently separating the oil and gas produced by Producer on the subject premises in order to save and render available all of such gas for delivery to Bankline. Bankline shall have the right to inspect such equipment at all reasonable times.

Producer shall install at ground elevation all of the connections and other apparatus necessary for the delivery of the gas from its gas traps into Bankline's wet gas gathering system, including the regulators and other facilities necessary for maintaining the proper back pressure on the gas produced from Producer's wells on the subject premises and available for delivery to Bankline at such points.

14. Bankline shall install and maintain at its sole cost and expense a meter of standard make and design capable of accurately measuring all of the gas delivered and received hereunder from Producer's wells, it being understood that Bankline shall not be required to install meters for measuring separately the gas produced from each of Producer's wells located on the subject premises.

All measurement of gas delivered and received hereunder shall be computed in cubic feet based on an absolute pressure of 14.73 pounds per square inch at a temperature of 60° Fahrenheit, in accordance with the procedure outlined in California Natural Gasoline Association Bulletin No. TS-353, or revisions thereof.

15. In the event that at any time or from time to time Bankline is required to pay any processing tax, or any other tax, license, or governmental charge, directly or indirectly, upon or measured by the gasoline and/or other liquefiable hydrocarbons manufactured from the gas of Producer which Producer receives as royalty, or the gasoline taken by it in exchange therefor, or upon the proceeds of the sale of such royalty gasoline or other liquefiable hydrocarbons, the manufacture thereof, or upon the production or transportation of the gas processed hereunder, or upon the dry gas delivered to Producer hereunder, or upon the proceeds of the sale of any dry gas to which Producer is entitled, Producer agrees to reimburse Bankline for the full amount of such processing tax, and/or any other tax, license or governmental charge paid by Bankline on or measured by Producer's share of such dry gas and/or gasoline and other liquefiable hydrocarbons. In the event Bankline is required to pay any severance or production tax on any gas or gasoline delivered by Producer to Bankline, or any tax which is measured or allocated on production or severance of such gas and/or gasoline, Producer agrees to reimburse Bankline for the full amount of such severance or

production tax, it being stipulated between the parties that the full incidence of such severance or production tax, regardless of the manner of levy or collection, shall be upon Producer.

16. Bankline agrees to pay promptly, before they become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed and maintained by Bankline upon the subject premises. In the event Bankline fails so to do, Producer may pay any such tax and Bankline shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of seven per cent (7%) per annum, upon demand being made therefor.

17. Bankline shall not suffer any lien or liens to be filed against the plant, pipelines, machinery and/or equipment, or any other property placed by Bankline upon the subject premises for work, labor, materials or supplies furnished in connection therewith, and if any such lien or liens are filed thereon, Bankline agrees to remove the lien or liens at its own expense and cost and shall pay any and all judgments which may be entered thereon or thereunder. Should Bankline fail, neglect, or refuse so to do, Producer shall have the right to pay any amount required to release any such lien or liens or to defend any action brought thereon, and to pay any judgment therein, and Bankline shall be liable to Producer for all costs, counsel fees, and any amounts expended in defending any proceeding or the payment of any of the liens or any judgment obtained therefor.

18. In the event of default on the part of either party to this agreement in the performance of its obligations under this agreement, and such default shall not be remedied by the party in default within ten (10) days after receiving written notice thereof specifying the particulars of the default, then the party giving such written notice shall have the right to terminate or suspend this agreement, and thereupon all rights and obligations shall cease and determine or be suspended accordingly.

19. Bankline shall be entitled to remove, from time to time and within a reasonable time after the termination of this agreement, all pipelines, connections, meters and other equipment heretofore or hereafter installed by it on the subject premises. Bankline agrees to remove all of the pipelines, connections, meters, pumps, and other equipment installed by Bankline upon the property of Producer within ten (10) days after receiving notice from Producer of Producer's intention to quitclaim its interest in such property.

20. All notices from Producer to Bankline may be sent by United States mail, postage prepaid, addressed to Bankline Oil Company, 437 South Hill Street, Los Angeles 13, California. All notices from Bankline to Producer may likewise be sent by United States mail, postage prepaid, addressed to Progressive Oil Company, 2551 Cherry Avenue, Long Beach 6, California. Either party may change its mailing address to any other point within the State of California.

21. The nonperformance by either party of its obligations hereunder shall be excused so long as such performance is prevented by accidents, fires, riots, strikes, lockouts and other labor disturbances, earthquakes, war, acts of God, acts of any government (whether foreign or domestic, federal, state, county or municipal), total or partial failure of transportation or delivery facilities or supplies, or any cause beyond the reasonable control of such party, whether similar to the foregoing causes or not. If this contract, the performance thereof, or any matter or thing connected therewith, be in conflict with any law, ordinance or regulation, whether of federal, state, or of lesser political subdivision, then the performance thereof may be discontinued while so in conflict therewith.

22. This agreement shall become effective as of the date hereof and, except as hereinbefore provided, shall remain in full force and effect for a period of five (5) years and thereafter for so long as Producer operates aforesaid properties or either or any of them.

23. This agreement shall continue in force and be binding upon the parties hereto, their successors and assigns, for and during the term and period of this agreement, and Bankline shall be free from time to time, as it may elect, to turn over gas received hereunder to another operator or plant for processing, in which event all of the provisions hereof shall continue to apply in like manner as though Bankline processed such gas in its plant.

In Witness Whereof, the parties hereto have executed this instrument in duplicate by their proper officers, who are thereunto duly authorized, on the day and year first above written.

BANKLINE OIL COMPANY,

By /s/ L. L. AUBERT,
President; and

/s/ LUCILLE LYLE,
Assistant Secretary.

PROGRESSIVE OIL
COMPANY,

A Co-partnership of Wayue Mills and Kenneth Mills;

By /s/ WAYNE MILLS, and
KENNETH MILLS.

EXHIBIT No. 2-G

This Agreement, made and entered into this 15th day of March, 1934, by and between Bankline Oil Company, a California corporation, hereinafter designated as "Operator," and William C. McDuffie, as Receiver of Richfield Oil Company of California, hereinafter designated as "Producer,"

Witnesseth:

That Whereas, Producer is the owner and/or lessee of those certain parcels of land situated in

the Signal Hill oil district, Los Angeles County, California, described as

Lots Three to Nine (3 to 9), Sixteen to Twenty (16 to 20), Twenty-five to Twenty-nine (25 to 29), Thirty-five to Forty-eight (35 to 48), all inclusive, in Block Twelve (12), Hillside Addition;

and Whereas, Producer is the owner and/or lessee of the above described premises and is the owner of the natural gas produced therefrom and hereby guarantees his right and title to same; and

Whereas, Operator has erected and is operating a plant or plants in the Signal Hill oil field for the purpose of treating gas for the extraction of gasoline therefrom; and

Whereas, Operator in order to augment its supply of gas for said plant or plants, desires to purchase and/or receive from Producer all of the gas which may be produced by Producer from the property above described, and Producer is willing and desires to sell and/or deliver to Operator all of the gas produced by Producer from the above-described property and hereby guarantees his right and title to same:

Now, Therefore, in consideration of the premises and of the covenants, agreements and payments hereinafter set forth and other valuable considerations, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows:

1. Producer hereby agrees to furnish and deliver to Operator and Operator agrees to take and utilize in its plant or plants, subject to the terms and conditions of this agreement, natural gas produced from the above-described property during the life of this agreement except as provided in paragraphs seven, eight and nine hereof.

2. All gasoline condensed in the lines, pumps or traps of said Producer shall be considered as a part of the gas to be delivered to Operator and shall be accounted for by Operator as gasoline extracted from said gas.

3. Operator is granted the exclusive right to treat gas produced from the above-described property for and during the period of this agreement.

4. Producer shall deliver the gas at the casing heads and/or at gas traps installed by Producer on the premises above described. Producer agrees to use his best efforts to prevent the inleakage of air in traps or lines. Operator shall furnish, install and maintain all pipelines and connections from casing heads or traps to its plant or plants and such meters as may be necessary for the accurate measurement of the gas received from the property.

5. Producer, insofar as it has the right to do so, shall furnish right-of-ways for such pipe-lines and connections on the property. Producer hereby grants to Operator a right-of-way for his employees and vehicles over and across the lands of Producer here-

inabove described for any and all purposes necessary or proper in connection with the business of Operator insofar as it pertains to the functions to be performed by Operator under the terms of this agreement. Operator shall be entitled to remove, within a reasonable time after the termination of this agreement, all pipe-lines, connections, meters and other equipment installed by it.

6. Operator agrees to pay to Producer as royalty fifty per cent (50%) of the proceeds derived from the sale of gasoline extracted from said gas, or at Producer's option, as hereinafter provided, to deliver to Producer as royalty fifty per cent (50%) of the gasoline extracted from said gas.

Producer shall have the right to take his royalty gasoline in kind if he so desires, provided that he shall in such event serve Operator with thirty (30) days' advance notice in writing of such intention. An option once exercised to take such royalty either in cash or in kind shall not be changed for at least six (6) months unless agreed to by both parties hereto.

In event royalty gasoline shall be paid in kind, Operator shall provide ten (10) days' free storage of the royalty gasoline belonging to Producer in tanks provided by Operator; provided, however, that such storage shall be at Producer's risk as to all loss by evaporation, fire and/or other causes beyond the reasonable control of Operator.

In event Producer fails to remove said royalty

gasoline from the tanks of Operator within the said ten-day period, Operator shall not be obligated to deliver said royalty gasoline to Producer except at such times and in such quantities as will not interfere with the sales and/or deliveries of gasoline which Operator is otherwise required to make from said plant.

Royalty payments shall be made by Operator to Producer on or before the 20th day of each calendar month next succeeding that in which the gasoline is produced.

7. It is understood that Producer is operating his property primarily for oil production and Operator agrees to handle the gas produced from Producer's property at pressures which in the opinion of Producer will not interfere with the production of oil from the leases. It is understood and agreed by and between the parties hereto that during the period of flush production or in event Producer insists on maintaining extremely low pressures on casing heads or gas traps, Operator shall not be obligated to take, treat or pay for gas produced and/or vented during such periods.

In event that the amount of gas produced from the properties of Producer, together with the amount of gas produced from properties of other producers with whom Operator has contracts for the treatment of gas, exceeds the capacity of the plant of Operator and said excess quantity is not sufficiently permanent in the judgment of Operator

to justify the construction of additional plant capacity, then during the period of said excess production the amount of gas of Producer treated in said plant shall be such pro rata of Producer's gas as the total amount of gas available from all producers bears to the amount of gas which can be treated.

Operator shall not be obligated to treat gas hereunder when the quantity of gas produced is so small as to render the treatment of same unprofitable to Operator.

Producer agrees not to treat or cool gas produced on the above-described property in any manner that will cause the gasoline or a portion of the gasoline to be condensed or separated from the natural gas. Producer agrees to maintain the casing heads of all wells and all their connections thereon tight and in good condition to prevent an inleakage of air into the pipe-lines of Operator. In the event of an inleakage of air into the pipe-lines of Operator, occasioned by the failure on the part of Producer to maintain his equipment in proper condition, Operator, at its option, may correct the volume of gas received from the above-described property for any such inleakage of air by the application of a factor based on the percentage of air contained in said gas.

8. Operator shall not be obligated to utilize any gas in its plant or plants which contains less than five-tenths ($5/10$) of a gallon of gasoline per one

thousand (1,000) cubic feet of gas unless Operator so desires. In the event Operator shall refuse or neglect to take and utilize in its plant or plants any gas available on the above-described property for the reason that the gasoline content of the gas is less than five-tenths of a gallon per one thousand cubic feet, Operator agrees to use its best efforts and reserves the right to dispose of such gas in the same manner as provided for handling the residue dry gas from the plant or plants.

9. In event any suit is commenced either in law or in equity involving the title to the gas of Producer, or to the gasoline to which Producer is entitled under this agreement, or to any money to which Producer is entitled, then Operator during the pendency of any such suit may at its option either discontinue the taking of said gas until said suit be finally determined or may continue nevertheless to take said gas, and shall have the right thereupon to impound any moneys due to Producer to the joint account of Operator and Producer in any national bank in the City of Los Angeles, State of California.

10. Operator shall be entitled to treat at and by means of said plant or plants such quantities of gas as it may desire to take from other producers. Operator shall meter separately the gas received from Producer and from other producers whose gas is so taken and at least once a month shall test separately, according to a recognized method for

testing gas, samples of gas received from Producer and from other producers.

11. The amount of gasoline extracted from gas delivered by Producer when mixed or commingled with other gas shall be such proportion of all the gasoline produced and saved from said mixed or commingled gas as the computed gasoline in Producer's gas bears to the computed gasoline in all of said mixed or commingled gas as determined from the meter readings and tests hereinabove mentioned. The volume of dry gas to be credited to Producer shall bear the same proportion to the total volume of dry gas discharged from said plant or plants as the volume of gas received from Producer bears to the total volume of gas received by Operator from all sources at said plant.

Operator shall not be held accountable for so much of the dry gas at any plant or plants as may be actually or reasonably used or consumed or lost in the operation of said plant or plants and in the production of gasoline from the natural gas.

Of the dry gas remaining after above deductions have been made, Operator agrees to currently return to Producer at the property line nearest to the existing dry gas lines of Operator as much of the residue dry gas as may be necessary for fuel purposes and other producing activities of Producer on the said premises; provided, however, that Operator shall not be obligated to deliver such gas at a pressure exceeding twenty pounds per square inch at

the plant of Operator making such delivery. It is understood and agreed that Operator, to meet Producer's requirements, may deliver dry gas to Producer in excess of the amount of residue dry gas credited to Producer, but in such event Producer hereby agrees to pay Operator for the excess dry gas delivered at the current market price of residue dry gas sold or delivered from the plant of Operator making such delivery to Producer; or in event Operator, in order to meet the dry gas requirements of Producer, is required to purchase dry gas in the open market, then in this event Producer agrees to reimburse Operator for the excess dry gas furnished to Producer, at the same price Operator is required to pay for same.

12. In event Producer does not require all of the gas to be returned for the above-mentioned purposes, then Operator will use its best efforts to sell the balance of the dry gas. In event of the sale of such residue dry gas by Operator, Operator shall pay to Producer on or before the 20th day of the next succeeding calendar month following that in which the sale occurs, fifty per cent (50%) of the proceeds derived by Operator from the sale of such residue dry gas; provided, however, that in event Operator is not able to sell the resulting dry gas or for any other reason fails and/or neglects to sell the resulting dry gas, then in such an event Operator shall be under no obligations whatsoever to Producer with respect to said dry gas.

13. Producer shall at all reasonable times during business hours have access to the accounts and

records of Operator insofar as they pertain to matters arising under this agreement or for the purpose of verifying statements made hereunder.

14. Producer shall be entitled to require Operator to test meters at intervals of at least once each month and oftener in event same is necessary. Producer shall have the privilege, if he so desires, of having a representative present during all testing of the gas or the checking of meters registering the gas from the above described property.

15. Operator agrees to furnish Producer with a report not later than the 20th of each month accounting for the gasoline produced and the dry gas returned for lease operations or sold. It is agreed that any and all objections to such reports must be made to Operator in writing not later than fifteen (15) days after receipt thereof by Producer; that the failure by Producer to make such objection in writing within said period of fifteen days shall create a conclusive presumption that such report is correct in all particulars and that after said fifteen-day period shall have elapsed without any such written objection having been made to Operator, Producer shall not thereafter have the right to question or dispute such report in any way.

16. In event at any time or from time to time Operator is required to pay any tax, license or governmental charge on the manufacture, transportation or sale upon that part of the gasoline manufactured from the gas of Producer to which Producer is entitled as royalty or upon the proceeds

of the sale of such royalty gasoline, Producer shall reimburse Operator for the full amount of such tax, license or governmental charge so paid by Operator.

17. Operator agrees to promptly pay, before the same become delinquent, all taxes which may be assessed or levied during the term of this agreement upon any property erected, placed or maintained by Operator upon any of the lands of Producer hereinabove described. In event that Operator fails so to do, Producer may pay any such tax and Operator shall reimburse Producer for all amounts so paid, with interest from the date of such payment at the rate of ten (10) per cent per annum, upon demand being made therefor.

18. Operator shall not suffer any lien or liens to be filed against the plants, pipelines, machinery and equipment or any other property placed by it upon the lands of Producer, for work, labor, material or supplies furnished in connection therewith, and if any such lien or liens is filed thereon Operator agrees to remove the same at its own expense and cost and shall pay any judgments which may be entered thereon or thereunder. Should Operator fail, neglect or refuse so to do, Producer shall have the right to pay any amount required to release any such lien or to defend any action brought thereon and to pay any judgment entered therein, and Operator shall be liable to Producer for all costs, damages and counsel fees and any amounts expended in defending any proceedings

or the payment of any of said liens or any judgment obtained therefor.

19. The non-performance by either party of its obligations hereunder shall be excused so long and only to the extent that such performance is prevented by strikes, delays of transportation companies or other causes beyond the reasonable control of such party, whether similar or dissimilar to those above stated.

20. It is understood and agreed that in the determining of any question of fact or dispute as to any matter which may arise under this contract, the same shall be determined by a board of arbitrators to be composed of one member appointed by Producer and one member appointed by Operator and these two persons shall appoint a disinterested third person, and the decision of the majority of the board of arbitrators shall be binding upon both parties hereto. The decision of the arbitrators shall be a condition precedent to the right of action in this contract.

21. No provision of this contract shall be interpreted contrary to the rules and regulations of any regulatory body of the United States or of the State of California.

22. The term of this agreement shall be for a period of five (5) years from and after the date hereof and so long thereafter as gas may be produced in paying quantities from the above-described property.

23. In case of default by either party in the performance of its obligations hereunder and the continuance of such default for thirty (30) days after written notice thereof specifying the particulars of the default, the party not in default shall be entitled to terminate or suspend this agreement and all rights and obligations hereunder shall thereupon cease and determine or be suspended accordingly.

24. All notices from Producer to Operator shall be sent by United States mail, postage prepaid, addressed to Bankline Oil Company, 634 South Spring Street, Los Angeles, California. All notices from Operator to Producer shall be likewise sent by United States mail, postage prepaid, addressed to William C. McDuffie, Receiver of Richfield Oil Company of California, 555 South Flower Street, Los Angeles, California. Either party may change its mailing address to any other point within the State of California.

25. This agreement shall continue in force and be binding upon the parties hereto, their heirs, executors, administrators, successors and/or assigns for and during the terms and period of this agreement.

26. Notwithstanding anything to the contrary herein contained, it is understood by both parties hereto that this agreement is subject to the lien, operation and effect of that certain Trust Indenture dated May 1, 1929, by Richfield Oil Company of

California to Security-First National Bank of Los Angeles, Trustee.

27. William C. McDuffie as Receiver of Richfield Oil Company of California executes this agreement solely in his capacity as Receiver of Richfield Oil Company of California and without any personal obligations and liabilities whatever, and shall be bound by and liable upon the terms hereof for so long only as he shall continue to operate as Receiver thereof the properties of Richfield Oil Company of California. Upon acceptance by any person, firm or corporation acquiring a major portion of the assets of Richfield Oil Company of California by virtue of any plan of reorganization or foreclosure effected in its receivership of the duties, obligations and liabilities of the said Receiver of Richfield Oil Company of California hereunder, such person, firm or corporation shall succeed to all of the rights, powers, privileges and immunities of the said Receiver hereunder.

In witness whereof, the parties hereto have hereunto set their signatures and seals the day and year first above written.

BANKLINE OIL COMPANY,

By /s/ K. J. BARNESON,
Vice President; and

/s/ E. J. CASE,
Asst. Secretary,
"Operator."

WILLIAM C. McDUFFIE, as
Receiver for Richfield Oil
Company of California,

By /s/ R. C. MONTGOMERY,
"Producer."

EXHIBIT NO. 2-H

This Agreement, made and entered into this 25th day of May, 1925, by and between The Superior Oil Company, a corporation, duly organized and existing under and by virtue of the laws of the State of California, hereinafter designated as "Producer," and Bankline Oil Company, California corporation, hereinafter designated as "Bankline,"

Witnesseth:

That whereas, the Producer is the lessee of the hereinafter described premises, under an oil and gas lease from Robt. H. Britton, Mattie E. Britton, et al., as lessor, dated March 28, 1922, and recorded in Book 1134, of, at page 238 thereof, records of Los Angeles County, California; and,

Whereas, Bankline has erected a plant in the Signal Hill District, in said County of Los Angeles, capable of handling and treating gas for the extraction of gasoline therefrom; and,

Whereas, the Bankline, in order to augment its supply of gas for said plant, desires to purchase

and receive from said Producer all of the natural gas (except such gas as may be required in the development and operation of the property), which may be produced from the property hereinafter described, for the purpose of manufacturing and extracting gasoline therefrom;

Now, therefore, in consideration of the mutual covenants herein contained, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto covenant and agree with each other as follows, to-wit:

1. The Producer hereby agrees to furnish and deliver to the Bankline, for the purpose of manufacturing and extracting gasoline therefrom, all of the gas produced on the lease (except such gas as may be required in the development and operation of the property, which it is understood may be retained by Producer if he so desires) for and during the entire period of time that gas shall be produced therefrom, the said Bankline being given the exclusive right to treat all gas produced as aforesaid.

2. The Producer shall deliver the gas at an approved gas-trap, to be installed and maintained by the Producer at a central point on the premises hereinafter described, and Bankline agrees to carry such vacuum or pressure at this point as Producer shall from time to time deem advisable. Bankline shall furnish, install and maintain necessary pipe connections from said gas trap to said plant, and necessary meter or meters for the measurement of

gas delivered from said premises. The Producer shall furnish right of way for said pipe lines and connections on the premises hereinafter described, and the Bankline elsewhere. The Bankline shall be entitled to remove on termination of this agreement all pipe connections, meters and other equipment installed by it.

3. In full consideration of the rights herein granted the Bankline agrees to pay to Producer one-third ($33\frac{1}{3}\%$) of the gross proceeds received by it from the sales of gasoline manufactured or extracted from said gas. Bankline shall have the right to sell royalty gasoline with its own share of the product and continue to do so if no election be made by the Producer to take his royalty gasoline in kind. Producer shall have the right to take his royalty gasoline in kind, provided he shall in such event serve Bankline with thirty days' advance notice in writing of such intention, and such election to take royalty gasoline in kind shall be exercised not oftener than once in every six calendar months.

In the event royalty gasoline be paid in kind, Producer shall be entitled to thirty days free storage of his royalty gasoline in tanks provided by Bankline, provided that such storage shall be at Producer's sole risk as to loss by evaporation, fire, or any other cause.

4. Royalty payments shall be made by Bankline to Producer on or before the 20th day of the

calendar month next succeeding that in which gasoline is produced.

5. The Producer shall have at all reasonable times during business hours, the right to inspect the records and accounts of the Bankline relating to the production of gasoline from said plant or plants. Bankline shall keep accurate records and furnish the Producer with a statement thereof, showing the amount of gas taken from the Producer's property, the gasoline content thereof as indicated by the tests hereinafter provided for, and full records of the amount of gas handled in said plant or plants, the quantity of gasoline produced and sold, and the prices received therefor, the amount of gas consumed for fuel, and the amount of dry gas sold (if any be sold). Bankline shall have the right to use such gas for fuel out of the gas furnished by Producer as it may require in the operation of said plant or plants in which Producer's gas is utilized. The amount of gas wasted or used for fuel shall be apportioned against the various producers on the basis of the quantities delivered to the plant.

6. Bankline shall be entitled to refine, at and by means of said plant or plants, such quantities of gas as it may desire to take from other persons than Producer. Bankline shall meter separately the gas received from Producer and from other producers whose gas is so taken, and at least once a month shall test separately, according to a recognized method for testing gas, samples of gas received

from Producer and from such other producers. The amount of gasoline extracted from gas delivered by Producer shall be determined as a proportion of the total gasoline extracted at said plant, computed from said meter readings and said tests. The Producer shall be entitled to require Bankline to test meters at intervals of not less than one month on reasonable notice.

7. Bankline agrees to maintain sufficient vacuum in its lines at all times to handle all gas produced on the lease or leases, but may elect not to receive any gas from Producer which does not contain gasoline in commercial quantities. Any gas tendered to Bankline under this agreement and rejected by them may be disposed of elsewhere by Producer.

8. Bankline agrees to use its best efforts to sell the dry gas remaining after gasoline content has been extracted, and in event of sale thereof it shall account to Producer, on the 20th day of the next calendar month following that in which sale occurs, on the basis, as to quantity, of at least seventy-five per cent (75%) of the volume of wet gas delivered to it by Producer. Bankline agrees to pay to Producer for all dry gas sold the entire gross proceeds of such sale, less the actual cost of compressing and marketing the same, in any event not to exceed four cents (4c) per M. cubic feet. In the event Producer elects to have dry gas returned to him, the same shall be returned at a pressure of at least 25 pounds per square inch at the plant, but all expense of redelivery shall be borne by him. For the purpose of

allowing for loss and fuel used in Bankline's plant and lines there shall be no obligation on the part of Bankline to deliver dry gas to Producer in excess of seventy-five per cent (75%) of the volume of wet gas received by Bankline from Producer. In the event that the Producer does not elect to take such dry gas to which it is entitled at the Bankline plant, and such gas be not sold, then Bankline shall be under no obligations whatsoever to Producer as to such dry gas.

9. The property affected by this agreement is located in Los Angeles County, California, and particularly described as follows:

Lots Eighteen and Nineteen, Block forty-eight (48), East one-half (E $\frac{1}{2}$) of Lot Eighteen (18) and West one-half (W $\frac{1}{2}$) of Lot Seventeen (17) of Block Forty-three (43), Peck & Anderson Tract, Los Angeles County, as per map recorded in Book 4, Page 11, containing 3 acres.

Lots one (1), Two (2), Three (3), Four (4) and Five (5), Block Forty-three (43); P. & A. Tract, containing 5 acres.

East one-half (E $\frac{1}{2}$) Lot seventeen (17) and Lot Sixteen (16), Block Forty-three (43) P. & A. Tract, containing 1 $\frac{1}{2}$ acres.

10. The performance by either party of his or its obligations hereunder shall be excused so long as and to the extent that such performance is prevented by strikes, lockouts, delays of transportation companies, inability to obtain necessary labor or ma-

terial in the open market, or other causes beyond the reasonable control of such party.

11. In the event of any dispute as to any matter arising out of this agreement, such dispute shall be submitted to arbitration. Each of the parties hereto shall select one arbitrator and the two so selected shall select a third, and a decision by any two of such arbitrators shall be binding and conclusive upon the parties hereto.

12. In case of default by either party in the performance of his or its obligations hereunder, and the continuance of such default for thirty (30) days after written notice thereof, specifying the particulars of the default, the party not in default shall be entitled to terminate this agreement, and all rights and obligations hereunder shall thereupon cease and determine except as to the payment to the Producer of any money which may be due to it from the Bankline.

13. All notices from the Producer to the Bankline hereunder shall be sent by United States mail, postage prepaid, addressed to the Bankline at 310 Sansome Street, San Francisco, California. All notices from the Bankline to the Producer shall be likewise sent by United States mail, postage prepaid, addressed to the Producer at 1203 A. G. Bartlett Building, Los Angeles, California.

This agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the respective parties hereto.

Executed in duplicate the day and year first hereinabove written.

THE SUPERIOR OIL COMPANY,

By /s/ W. M. KECK,
Pres., and

/s/ F. D. SOUTH,
Asst. Secy.

BANKLINE OIL COMPANY,

By, and
.....

We, the undersigned, lessors in that certain lease above mentioned (or present owners of the property above described or having an interest in the royalties or production therefrom) do hereby join in the foregoing contract insofar as our royalty gas, if any, is concerned; all payments to us to be made to Such payments shall relieve Bankline Oil Company from seeing to the proper distribution thereof.

Dated:, 1925.

.....,
.....

EXHIBIT No. 3

Copy

Signal Oil and Gas Company
General Offices, 811 West Seventh Street
Los Angeles 17, California

October 29, 1952.

Bankline Oil Company,
437 South Hill Street,
Los Angeles, California.

Gentlemen:

Subject to the conditions and for the considerations hereafter set forth, Signal Oil and Gas Company hereby offers to purchase from you the following properties, to wit:

All leases, gas contracts or other purchase agreements held by Bankline for the purchase or processing of wet gas from properties located in the Signal Hill Oil Field. A schedule of said instruments is hereunto attached and by this reference made a part hereof and marked Exhibit "A."

Signal Oil and Gas Company offers to pay for the above-described properties the sum of \$85,000.00, plus further sums of money calculated in the following manner:

.....
Signal shall process said wet gas, or cause said wet gas to be processed, at its plant in the Signal Hill Oil Field or at such other plant or plants as Signal shall hereafter elect, whether or not said plants shall be owned and/or operated by Signal. All dry

gas resulting from said operations not required to be returned to the properties from which produced shall be sold by Signal and the net sales price paid to Bankline monthly. All natural gasoline and LPG Propane extracted by Signal from said wet gas shall likewise be sold by Signal at the average price it receives for like products sold by Signal, and Signal shall pay to Bankline monthly a sum of money equal to the sales price of said natural gasoline and LPG Propane, less the following sums, to wit:

The sum of $2\frac{1}{2}c$ per gallon on all natural gasoline and the sum of $1\frac{1}{4}c$ per gallon on all LPG Propane.

Said deductions are based upon the present price of $8.33c$ per gallon posted by Standard Oil Company of California for 21# R. V. P. natural gasoline in the Signal Hill Oil Field and shall be increased or decreased at the times and in direct proportion to any increase or decrease above or below said price of $8.33c$ per gallon posted by Standard Oil Company of California for 21# R.V.P. natural gasoline in the Signal Hill Oil Field.

Connections shall be established between the wet gas lines presently owned and operated by Bankline and those presently owned and operated by Signal at two locations, to wit: in the proximity of Temple and Hill Streets and in the proximity of Willow and Walnut Streets, Signal Hill, and transmission of said gas shall be made at said points or

at other points if in Signal's judgment other connections shall be required. Signal shall also connect its dry gas lines to the dry gas lines presently owned and operated by Bankline in the proximity of Cherry and Willow Streets for delivery of gas to the properties from which it is produced, when such redelivery shall be required. Signal shall meter the wet gas in master meters installed for said purpose and shall make all applicable tests at said points, accounting to Bankline for the entire amount of wet gas received pursuant to this agreement without allocation as to the individual properties from which said gas is produced.

Signal in its operations hereunder shall use the same metering, testing, and accounting procedure currently used by Signal in connection with other wet gas being purchased by Signal in said Signal Hill field and drips secured from the pipe-line system of Bankline will be accounted for on the same basis as other drips collected by Signal; provided, however, that such procedures of metering, testing and accounting shall conform with the provisions of the agreements described in Exhibit "A" as modified from time to time by usages and customs in the industry.

This agreement shall remain in full force and effect for the period of ten years from November 1, 1952, and thereafter so long as Signal shall elect. In the event that at any time after ten years from November 1, 1952, Signal shall desire not to receive and/or process the wet gas produced from the prop-

erties described in Exhibit "A" it shall give written notice to that effect to Bankline. Within thirty days after said notice Bankline by written notice to Signal may elect to purchase the leases, gas contracts and other purchase agreements herein purchased from Bankline for the sum of \$10.00 and have such of said leases and other agreements then remaining in effect reassigned to it, and upon notice to that effect Signal shall reassign all of said leases and agreements. In the event Bankline shall not elect to receive such reassignments, then Signal may without further obligation to Bankline sell or assign said agreements to third parties or may quitclaim, surrender or otherwise terminate any or all of them.

If the foregoing is acceptable to you, will you please so indicate by signing and returning the carbon copy of this letter.

Yours very truly,

SIGNAL OIL AND GAS
COMPANY,

By /s/ R. H. GREEN,
Vice President.

Accepted this 1st day of November, 1952.

BANKLINE OIL COMPANY,
By /s/ L. L. AUBERT.

EXHIBIT "A"

(a) Contract for the treatment of wet gas, dated June 15, 1936, by and between Bankline Oil Company and Jet Oil Company.

(b) Contract for the treatment of wet gas, dated December 1, 1950, by and between Bankline Oil Company and M. K. Doumani.

(c) Contract for the treatment of wet gas, dated December 6, 1932, by and between Bankline Oil Company and D. D. Dunlap.

(d) Contract for the treatment of wet gas, dated June 9, 1922, amended May 17, 1927, by and between Bankline Oil Company and General Petroleum Corporation.

(e) Contract for the treatment of wet gas, dated October 1, 1938, by and between Bankline Oil Company and Incorporated Production Co.

(f) Contract for the treatment of wet gas, dated January 1, 1952, by and between Bankline Oil Company and Progressive Oil Company.

(g) Contract for the treatment of wet gas, dated March 15, 1934, by and between Bankline Oil Company and William C. McDuffie, as Receiver of Richfield Oil Company of California.

(h) Contract for the treatment of wet gas, dated May 25, 1925, by and between Bankline Oil Company and The Superior Oil Company.

EXHIBIT No. 4

Installment Note

Los Angeles, California,

December 1, 1952.

\$85,000.00.

In installments, and at the times hereinafter stated, for value received, Signal Oil and Gas Company promises to pay to Bankline Oil Company, or order, at Los Angeles, California, the principal sum of Eighty-five thousand dollars, without interest. Said principal sum is payable in twenty monthly installments of Four Thousand dollars (\$4,000.00) each on the 25th day of each and every month, beginning on the 25th day of December, 1952, and a final payment of Five thousand dollars (\$5,000.00) due on the 25th day of the twenty-first month. Principal is payable in lawful money of the United States of America.

Should suit be commenced to collect this note, or any portion thereof, such sum as the court may deem reasonable shall be added hereto as attorney's fees.

SIGNAL OIL AND GAS
COMPANY,

By /s/ R. H. G.,

By /s/ H. F. C.

EXHIBIT No. 5

Letterhead of

Signal Oil and Gas Company
Los Angeles 17, California

December 1, 1952.

Bankline Oil Company,
437 South Hill Street,
Los Angeles, California.

Gentlemen:

Reference is made to the transaction in which Bankline Oil Company sold to Signal Oil and Gas Company certain leases, gas contracts and other purchase agreements held by Bankline for the purchase or processing of wet gas from properties located in the Signal Hill Oil Field. The sales price of said agreements was the sum of \$85,000.00, payable in twenty monthly installments of \$4,000.00 each, and a final installment of \$5,000.00.

For good and valuable consideration, Signal Oil and Gas Company hereby agrees to indemnify and hold Bankline Oil Company harmless from the payment of any greater United States corporate income tax pursuant to Sections 13, 15 and 430 of the Internal Revenue Code on the receipt of said sum of \$85,000.00 than the said income tax calculated on said sales price pursuant to Section 117 of said Code.

Yours very truly,

SIGNAL OIL AND GAS
COMPANY,By /s/ R. H. GREEN,
Vice President.

U. S. CORPORATION INCOME TAX RETURN

FOR CALENDAR YEAR 1952

1952

or fiscal year beginning 1952, and ending 1953

File No. CI 5 68
Serial No. 61 1102

PRINT FULLY CORPORATION'S NAME AND ADDRESS

Bankline Oil Company

(Name)

437 South Hill Street

(Street and number)

Los Angeles 13, California

(City or town, postal zone number) (State)

Date incorporated 5/20/12 State or country California

Principal business activity (See Instruction N) Petroleum refining

Business group code number 291 Number of places of business

District (Cashier's stamp)

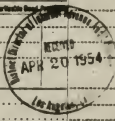
RECEIVED
95 APR 15 1953

DIRECTOR INT REV
LOS ANGELES
TELEPHONE 4-21

NET INCOME COMPUTATION

GROSS INCOME

1. Gross sales (where inventories are an income-determining factor) \$	Less: Returns and allowances \$		
2. Less: Cost of goods sold. (From Schedule A)			
3. Gross profit from sales			
4. Gross receipts (where inventories are not an income-determining factor) From Schedule A	\$ 644,496.52		
5. Less: Cost of operations. (From Schedule B)	473,835.96		
6. Gross profit where inventories are not an income-determining factor		170,660.56	
7. Dividends. (From Schedule C)		500.00	
8. Interest on loans, notes, mortgages, bonds, bank deposits, etc.		23,411.27	
9. Interest on corporation bonds, etc.			
10. (a) Interest on United States savings bonds and Treasury bonds created in full or part of the principal amount of \$1,000 issued prior to March 1, 1941.			
(b) Interest on obligations of certain instrumentalities of the United States issued prior to March 1, 1941.			
(c) Interest on Treasury notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof.			
11. Rents		3,570.80	
12. Royalties			
13. (a) Net short-term capital gain reduced by any net long-term capital loss. (From Schedule D)			
(b) Net long-term capital gain reduced by any net short-term capital loss. (From Schedule D)		93,758.72	
(c) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule D)		1,633.24	
14. Other income. (State nature). See schedule		9,415.34	
15. TOTAL INCOME in items 3, and 6 to 14, in full		182,991.97	



POSTING DATE
MAY 18 53

291

DEDUCTIONS

16. Compensation of officers. (From Schedule E)	\$ 72,193.59
17. Salaries and wages (not deducted elsewhere)	246,155.13
18. Rent	23,592.75
19. Repairs (do not include cost of improvements or capital expenditures)	
20. Bad debts. (From Schedule F)	532.50
21. Interest	10,773.68
22. Taxes. (From Schedule G)	14,367.87
23. Contributions or gifts paid. (From Schedule H)	3,290.00
24. Losses by fire, shipwreck, or other casualty, or theft. (Submit schedule)	
25. Depreciation. (From Schedule I)	255,569.44
26. Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)	276,288.16
27. Amortization of emergency facilities. (Submit schedule)	
28. Advertising	
29. (a) Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan	
(b) Amounts contributed under other employee benefit plans	
30. Other deductions authorized by law. (From Schedule J)	638,312.02
31. Total deductions in items 16 to 30, inclusive	1,672,593.14
32. Net income before net operating loss deduction (item 15 less item 31)	\$ 166,325.79
33. Less: Net operating loss deduction. (Submit statement)	
34. Net income	\$ 166,325.79

TOTAL INCOME AND EXCESS PROFITS TAX

35. Total income tax (line 9, page 3)	\$ 56,391.15
Less: Credit for income taxes paid to a foreign country or United States possession allowed a domestic corporation	
37. Balance of income tax due (line 35, Schedule EP (Form 1120))	\$ 56,391.15
38. Excess profits tax due (line 39, Schedule EP (Form 1120))	36,178.00
39. Total income and excess profits tax due (item 37 plus item 38) (For installment payments, see General Instruction D)	\$ 56,391.15

DECLARATION. (See Instruction E)

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, each for himself declares under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by him and it, to the best of his knowledge and belief, is true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

April 10, 1953
(Date)
President
Treasurer, Assistant Treasurer, or Chief Accounting Officer
Corporate Seal

DECLARATION. (See Instruction E)

I/we declare under the penalties of perjury that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

(Signature of person preparing the return)
(Signature of person preparing the return)
(Name of firm or employer, if any)

SCHEDULE OF GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

For Calendar Year 1952

or taxable year beginning _____, 1952, and ending _____, 1953

Name and address Bankline Oil Company, 437 South Hill St., Los Angeles 13, California

(1) CAPITAL ASSETS

1. Description of Property	2. Date Acquired Mo. Day Year	3. Date Sold Mo. Day Year	4. Gross Sales Price (Contract Price)	5. Depreciation Allowed or Allowable Since Acquisition or March 1, 1913 (For such details)	6. Cost or Other Basis and Cost of Improvements Subsequent to Acquisition or March 1, 1913	7. Expense of Sale	8. Gain or Loss (Column 4 plus column 5 less the sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR NOT MORE THAN 6 MONTHS							
1.			\$	\$	\$	\$	\$
2. Unused net capital loss carry-over from five preceding taxable years (attach statement)							692.12
3. Total of short-term capital gains or losses or difference between short-term capital gains and losses							\$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS							
4.			\$	\$	\$	\$	\$
See schedule							94440.84
5. Total of long-term capital gains or losses or difference between long-term capital gains and losses							\$ 93758.72

SUMMARY OF CAPITAL GAINS AND LOSSES

Description	Gain or Loss To Be Taken Into Account	
	(a) Gain	(b) Loss
6. Net short-term capital gain or loss from line 3	\$	\$
7. Net long-term capital gain or loss from line 5	\$ 93758.72	\$
8. Net short-term capital gain (line 6, col. (a)) reduced by any net long-term capital loss (line 7, col. (b)). Enter here and as item 13 (a), page 1, Form 1120.	\$	XXXXXXXX XX
9. Net long-term capital gain (line 7, col. (a)) reduced by any net short-term capital loss (line 6, col. (b)). Enter here and as item 13 (b), page 1, Form 1120.	\$ 93758.72	XXXXXXXX XX
10. Excess of losses over gains in lines 6 and 7. This excess is not allowable	XXXXXXXX XX	\$

COMPUTATION OF ALTERNATIVE TAX

11. Surtax net income (line 5, page 3, Form 1120)	\$ 165900.79
12. Less: Net long-term capital gain reduced by any net short-term capital loss (line 9 of summary)	93758.72
13. Surtax net income for purpose of alternative tax	\$ 72142.07
14. Combined normal tax and surtax. If amount of line 13 is: Not over \$25,000; enter 30 percent of line 13 (32 percent if a consolidated return). Over \$25,000. Compute 52 percent of line 13 (54 percent if a consolidated return). Subtract \$5,500. Enter difference	\$ 32013.88
15. Less: Normal tax adjustment for partially tax-exempt interest; enter 30 percent of the sum of items 10 (a) and 10 (b), page 1, Form 1120, but not in excess of 30 percent of line 13	
16. Partial tax	\$ 32013.88
17. 26 percent of line 12	\$ 24377.29
18. Alternative tax (line 16 plus line 17)	\$ 56391.15
19. Normal tax and surtax (line 8, page 3, Form 1120)	\$ 56268.41
20. Tax liability (line 18 or 19, whichever is lesser). Enter here and as line 9, page 3, Form 1120	\$ 56301.15

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Description of property	2. Date Acquired Mo. Day Year	3. Date Sold Mo. Day Year	4. Gross Sales Price (Contract price)	5. Depreciation Allowed or Allowable Since Acquisition or March 1, 1913 (For such details)	6. Cost or Other Basis and Cost of Improvements Subsequent to Acquisition or March 1, 1913	7. Expense of Sale	8. Gain or Loss (Column 4 plus column 5 less the sum of columns 6 and 7)
1. casing	3/20/52		14522.64		133.78		\$ 14656.26
2. tubing	3/20/52		122.52		137.11		\$ 116.41
3. casing	6/2/52		153.51		13.22		\$ 140.29
2. Total net gain (or loss). Enter here and as item 13 (c), page 1, Form 1120							\$ 1633.94

State with respect to each item of property reported in Schedule D (1) and (2): (1) how property was acquired (2) whether at time of sale or exchange (a) purchaser owned directly or indirectly more than 50 percent in value of your outstanding stock, (b) where purchaser was a corporation, more than 50 percent in value of its capital stock and 50 percent in value of your capital stock was owned directly or indirectly by or for the same individual or his family, and (c) where purchaser was a corporation, whether more than 50 percent in value of its capital stock was owned directly or indirectly by you
If so, state name and address of purchaser

Instructions For Insurance Companies Using This Schedule

Companies taxable under section 204 and having losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses, etc., shall attach a schedule corresponding to Schedule D, Form 1120-04.
For companies taxable under section 204 or section 207 (a) (1) or (3), "net capital loss" means the amount by which the losses for the taxable year from sales or exchanges of capital assets exceed the sum of the gains from such sales or exchanges and the lesser of: (1) the corporation's net income (computed without regard to gains or losses from sales or exchanges of capital assets), or (2) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.
For companies taxable under section 207 (a) (1) or (3), all references to item or line numbers, Form 1120, shall be considered as references to the appropriate "item" or "line" in Form 1120-04. It will be necessary for such companies to substitute lines 14, 15, and 16 of the above alternative tax computation, a computation conforming to that on page 2 of Form 1120-04.

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Particulars for items purchased
 (including any used and lease equipment)
 (columnar year 1957)

Year	Particulars	Price	Value	Particulars for Income	Particulars for Expense	Value	Particulars for Income	Particulars for Expense	Value	Particulars for Income	Particulars for Expense	Value	Particulars for Income	Particulars for Expense	Value	Particulars for Income	Particulars for Expense	Value	
610	Particulars	125.50	125.50	Particulars	125.50	125.50	Particulars	125.50	125.50	125.50	125.50	125.50	Particulars	125.50	125.50	125.50	Particulars	125.50	125.50
611	Particulars	11.00	11.00	Particulars	11.00	11.00	Particulars	11.00	11.00	11.00	11.00	11.00	Particulars	11.00	11.00	11.00	Particulars	11.00	11.00
612	Particulars	8.50	8.50	Particulars	8.50	8.50	Particulars	8.50	8.50	8.50	8.50	8.50	Particulars	8.50	8.50	8.50	Particulars	8.50	8.50
613	Particulars	9.65	9.65	Particulars	9.65	9.65	Particulars	9.65	9.65	9.65	9.65	9.65	Particulars	9.65	9.65	9.65	Particulars	9.65	9.65
614	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
615	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
616	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
617	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
618	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
619	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00
620	Particulars	12.00	12.00	Particulars	12.00	12.00	Particulars	12.00	12.00	12.00	12.00	12.00	Particulars	12.00	12.00	12.00	Particulars	12.00	12.00

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Assets		Liabilities		Income		Expenses	
Amount	July 1	Amount	July 1	Amount	July 1	Amount	July 1
Cash	346 137.16	19798	509278	11716	11716	11716	11716
Notes and accounts receivable	500 50.00	19798	15216	15216	15216	15216	15216
Prepaid expenses	500 50.00	19798	15216	15216	15216	15216	15216
Other assets	169 64.00	19798	15216	15216	15216	15216	15216
Accounts payable	669467	509278	350776	350776	350776	350776	350776
Notes payable	500 50.00	19798	15216	15216	15216	15216	15216
Accounts receivable	169 64.00	19798	15216	15216	15216	15216	15216
Other accounts	49 62.88	19798	15216	15216	15216	15216	15216
Income	19798	509278	350776	350776	350776	350776	350776
Expenses	19798	509278	350776	350776	350776	350776	350776
Net Income	19798	509278	350776	350776	350776	350776	350776
Total	930 1186	930 1186	930 1186	930 1186	930 1186	930 1186	930 1186

Receipts of accounts receivable
 July 1 - 1914
 346 137.16
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 Total 1065 354.04

Long Term Capital Gains and Losses
 Forward B - Cont'd

Definition of Requests
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Schedule M - Reconciliation of net income and analysis of earned surplus and accumulated profits

<p>earned surplus, end of preceding taxable year City surplus transferred from the 1954/55 Corporation sub to merger August 1, 1957</p>	<p>5,471,816.00 7,761,500.00 1,635,700.00 15,868,016.00</p>
<p>Net income (Form 99, page 1 of return) Depreciation of old and new assets (Form 7061 of return) Tax: not deductible per Rev. Rul. 56-253</p>	<p>1,635,700.00 15,799,316.00</p>
<p>Good will suffered in 1957, but recorded in books in 1953 Additional depreciation of general assets in books - discontinued books in 1957 - recorded in books in 1953.</p>	<p>500.00 7,200.00</p>
<p>Additional city and county tax for 1957 - books in 1953, do change to surplus</p>	<p>500.00</p>
<p>Accrued interest on Treasury Note 1953/54 - not booked in 1951 booked in 1954 as credit to surplus</p>	<p>26,000.00</p>
<p>Capital loss carry-over from 1951</p>	<p>6,100.00</p>
<p>Interest</p>	<p>4,640.50</p>
<p>Dividends paid in cash</p>	<p>7,745,700.00</p>
<p>Provision for Federal taxes on income</p>	<p>16,000.00</p>
<p>Depreciation taken in 1954, 1955, and 1956 on assets which were depreciated in 1954</p>	<p>7,760.00</p>
<p>Recovery of book'd pay roll for 1954 - book'd as credit to surplus in 1953</p>	<p>23,000.00</p>
<p>Earned surplus, end of taxable year - per books</p>	<p>5,471,816.00</p>

See schedule.

NOTE: In the case of amounts expended for development and exploration of mines, and oil and gas wells, show separately (1) intangible drilling and development costs of oil and gas wells, (2) development expense of mines, and (3) exploration expense subject to limitation. Show separately deductions, if any, computed on taxable basis.

Schedule K.—COMPUTATION TO DETERMINE NECESSITY FOR FILING EXCESS PROFITS TAX SCHEDULE

1. Net income before net operating loss deduction (item 32, page 1) (Taxpayers which have elected under section 455 to accrue income from installment sales or long-term contracts, enter income so adjusted)	\$	
2. Deductions for interest (item 21, page 1) (banks should exclude interest on deposits)		
3. Deductions on account of retirement or discharge of bonds, etc.		
4. Deductions attributable to a grant or loan by a governmental agency to encourage mining of certain minerals		
5. Deductions attributable to technical services rendered to related foreign corporations		
6. In the case of banks, the excess of the deduction for bad debts under the reserve method over debts which actually became worthless during the year		
7. Federal income and excess profits taxes paid by lessee under long-term lease		
8. Total of lines 1 to 7, inclusive	\$	
If line 8 is \$25,000 or less, Schedule EP (Form 1120) need not be filed with this return. If line 8 is over \$25,000, Schedule EP (Form 1120) must be filed.		

TAX COMPUTATION. (See Tax Computation Instructions)

1. Net income (item 34, page 1)	\$	166325	79
2. Less: Dividends received credit: (a) Enter 85 percent of column 2, Schedule C	\$	425.00	
(b) Enter 62 percent of column 3, Schedule C			
(c) Enter 85 percent of dividends received from certain foreign corporations			
Total dividends received credit. Enter sum of (a), (b), and (c), above, but not to exceed 85 percent of the excess of item 32, page 1, over the sum of items 10 (a) and 10 (b), page 1	\$	425.00	
3. Credit for dividends paid on certain preferred stock if taxpayer is a public utility			
4. Credit for Western Hemisphere trade corporations			425.00
5. Surplus net income	\$	165900	79
6. Combined normal tax and surtax. If amount of line 5 is: Not over \$25,000; enter 30 percent of line 5 (32 percent if a consolidated return). Over \$25,000. Compute 52 percent of line 5 (54 percent if a consolidated return). Subtract \$5,500. Enter difference	\$	80768	41
7. Less: Normal tax adjustment for partially tax-exempt interest; enter 30 percent of the sum of items 10 (a) and 10 (b), page 1, but not in excess of 30 percent of line 5			
8. Normal tax and surtax	\$	80768	41
9. Total tax (line 8, or line 20 of separate Schedule D). Enter here and as item 35, page 1	\$	56391	15

QUESTIONS

- If this is the corporation's first return, indicate whether (a) completely new business ; or (b) successor to previously existing business, which was organized as (1) corporation , (2) partnership , or (3) sole proprietorship , or (4) other (indicate) _____ If successor to previously existing business, give name and address of the previous business organization _____
- Director's office where the corporation's return for the preceding year was filed: Los Angeles, California
- Enter amount of income (or deficit) from item 32, page 1, Form 1120 for 1951: (\$160,146.82)
- The corporation's books are in care of Yerne Harrell Located at 437 So. Hill St., Los Angeles, Cal 11
- Check if the corporation is a farmers' marketing or a farmers' purchasing cooperative association , a consumers' cooperative association , or other cooperative association
- Is the corporation a personal holding company within the meaning of section 501 of the Internal Revenue Code? No. (If so, an additional return on Form 1120 H must be filed.)
- Is this a consolidated return? No. (If so, procure from the director of internal revenue for your district Form 851, Affiliations Schedule, which shall be filled in and filed as a part of this return; each subsidiary should procure Form 1122 and file in accordance with Instruction I.)
- If this is not a consolidated return: (a) Did the corporation at any time during the taxable year own 50 percent or more of the voting stock of another corporation either domestic or foreign? No.; (b) Did any corporation, individual, partnership, trust, or association at any time during the taxable year own 50 percent or more of the corporation's voting stock? No. (If either answer is "yes," attach separate schedule showing: (1) Name and address; (2) percentage of stock owned; (3) date stock was acquired; and (4) the director's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.)
- Check whether this return was prepared on the cash basis or accrual basis
- Check basis of valuing or method of inventorying material or merchandise at the beginning and end of the taxable year—(a) cost ; (b) cost or market, whichever is lower ; (c) elective method provided in section 22 (d) ; (d) other basis or method . If other basis or method is used, explain fully in separate statement, giving date inventory was last reconciled with stock (see Specific Instructions 2).
- Did the corporation make a return of information on Forms 1096 and 1099 or Form W-2a for the calendar year 1952? (see General Instruction G-(1)). Yes.
- Has any transaction described in General Instruction G-(3) occurred on or after October 8, 1940? (Answer "yes" or "no") Yes, by merger.
- Has any transaction described in General Instruction G-(4) occurred on or after January 1, 1951? (Answer "yes" or "no") No.
- Did the corporation, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? (Answer "yes" or "no") No. If answer is "yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts. See General Instruction G-5.)
- Did the corporation at any time during the taxable year own directly or indirectly any stock of a foreign corporation? No. (If so, attach statement as required by General Instruction K.)

EXHIBIT No. 7

Signal Oil and Gas Company
General Offices 811 West Seventh Street
Los Angeles 17, California

December 1, 1952.

Bankline Oil Company,
437 South Hill Street,
Los Angeles, California.

Gentlemen:

Reference is made to our letter to you dated October 29, 1952, wherein Signal Oil and Gas Company offered to purchase from you certain leases, gas contracts and other purchase agreements held by Bankline for the purchase or processing of wet gas from properties located in the Signal Hill Oil Field, which offer was accepted by you under the date of the day of November, 1952.

Signal Oil and Gas Company hereby agrees to sell and deliver to you natural gasoline in monthly amounts equivalent to the amount of natural gasoline extracted by Signal from the wet gas processed by it under the provisions of the above-mentioned letter agreement of October 29, 1952. The term of this agreement shall be ten years from November 1, 1952, and so long thereafter as Signal shall be receiving wet gas produced from the above-mentioned wells.

The sales price of all natural gasoline delivered pursuant to this agreement shall be the average

Bankline Oil Co. vs.

	Acct. No.	Debits	Credits
Processing Charge from Others			
Natural Gasoline Sales	81106-4001	6,572.60	\$20,259.41
Propane Sales	71001-4001		421.31
Dry Gas Sales (To Signal)	71003-4001		1,265.12
“ “ (To Producers)	71005-4001		20.96
Royalty Expense	71009-4001	1,836.70	
General Petroleum Corp.	50200		108.32
Superior Oil Co.	50200		221.24
Richland Oil Co.	50200		28.35
Catherine McKenna—12½% of	50200		4.05
D. D. Dunlap	50200		249.64
Nelsons-Associates	50200		381.33
Progressive Oil Co.	12501		15.42
Richfield Oil Corp.	50200		97.43
Walter J. Scott	50200		10.22
Deferred Credits	59000		714.70
Royalty Expense	71009-4001	5,574.43	
Signal Oil and Gas Co.	50200		5,574.43
54,226 Gals. of 28.0 V.P. Natural Gasoline @ .1028 per Gal. del'd by Signal Oil & Gas Co. for Acct. of Bankline to Std. Oil			

Bankline Oil Company
Signal Hill—Gas Royalty
December 1954

[Copied from Bankline Oil Co. books to support Journal Voucher #1270]

R.2 3/6/57

Producer	Lease	Well No.	M. C. F. Wet Gas Produced	Wet Gas Delivered to Others for Processing Factor: 1.2943872	Plant, Fuel, Shrinkage & Line Loss 3818884	Returned to Lease	Sales Excess	Royalty Rate %	Due Producers Bankline	Less Royalty in Kind	Dry Gas Dry Gas M C F	Royalty Excess Amt.	Gasoline Royalty	Propane Royalty	Total Royalty
Gen Pet Corp	B & S	1-2	2,110	2,921	1,079	248	1,594	50	797	631	5/24 166				
"	Clock	1-2-4&5	1,476	2,043	552	132	1,359	50	680	538	142				
"	Jones	4-5	2,340	3,239	1,372	283	1,584	50	742	627	165				
"	Signal	2	1,902	2,633	883	164	1,586	50	793	628	165				
"	K & H	1-5-8	1,801	2,493	1,092										
"	"	2-6-9	2,011	2,785	1,375										
"	"	3-7-10	1,722	2,384	1,135	491	3,569	50	1,785	1,785					
Gen Pet Proportion.....										4,209				\$108.32	\$108.32
Bankline Proportion											638	.16e \$102.08	\$600.14	12.48	714.27
Superior Oil	Britton	1-2-4	309	428	107										
"	Crew	1-2-4	402	642	161										
"	Miller	1-2	463	641	160										
"	Swaffield	1-2	183	253	63		1,473	100@.145	1,473		1,473	.145e 213.59		7.65	221.24
Richland Oil Co.	B & G	7	70	93	37		60	60	36	36	.16e	5.76	26.11	.53	32.40
Maerate Oil Co.	Davis	#1	0	0	0	7	7	100	7	7		1.12			1.12
D. D. Dunlap	Suple	2	171	237	91	158	12	100	12	12		1.92	244.56	5.08	247.72
Nelsons—Assoc.	King Tut	1	924	1,279	489	50	740	50	370	370		59.20	321.46	6.67	387.33
Walter J. Scott	M.K. 2		52	72	10	23	39	50	20	20		3.20	6.89	.13	10.22
Progressive	Kingsland	7	52	72	14	170	112	100	112	122		17.92	15.11	.31	2.50
Richfield Oil	Seeco	1	129	179	68	0	111	50	56	56		8.96	86.66	1.81	97.43
Bankline Shrinkage over under allowable.....					132		132								
Totals.....			16,179	22,398	8,556	1,726	12,116		6,631	4,209	2,462	\$371.83	\$1,300.93	\$142.98	\$1,815.74

Bankline Oil Company
Signal Hill—Gasoline and Propane Royalty
December, 1954

[Copied from Bankline Oil Co. books to support Journal Voucher #1270]

R.2 3/6/57

Producer	Lease	Well No.	Wet Gas Produced M. C. F.	Gasoline Content % P.M.	Theoretical Production Gallons	Gasoline 1.1789023 88.0 V. P. Gallons	Propane .0567633 Gallons	Royalty Rate Per Cent	Less: Gasoline		Bankline		Royalty Value	
									Gasoline Gallons	Royalty in Kind Gallons	5/24th Gaso- line Royalty Gallons	Propane Royalty Gallons	Gasoline 1928	Propane .041996
Gen Pet Corp	B & S	1-2	2,110	9.53	20,108	23,599	1,141	33 1/2	7,866	6,227	1,639	380	\$ 168.43	\$ 16.80
"	Clock	1-2-4 & 5	1,476	5.98	8,826	10,350	501	"	3,453	2,734	715	380	73.91	7.30
"	"	"	"	"	"	"	"	"	"	"	"	"	"	"
"	Jones	4-5	2,340	11.48	26,863	31,526	1,525	"	10,509	8,320	2,189	508	225.03	22.45
"	Signal	2	1,902	8.33	15,844	18,595	899	"	6,198	4,907	1,291	300	132.71	13.26
"	K & H	1-5-8	1,801	11.99	21,594	25,343	1,226	"	8,448	8,448		409		18.08
"	"	2-6-9	2,011	14.00	28,154	33,041	1,598	"	11,014	11,014		533		23.56
"	"	3-7-10	1,722	13.37	23,023	27,020	1,307	"	9,007	9,007		436		19.27
Superior Oil	Britton	1-2-4	309	7.72	2,385	2,799	135	33 1/2	933	933		45		1.99
"	Crew	1-2-4	464	7.02	3,257	3,822	185	"	1,274	1,274		62		2.74
"	Miller	1-2	463	4.71	2,181	2,560	124	"	853	853		41		1.81
"	Swaffield	1-2	183	7.11	1,301	1,527	74	"	509	509		25		1.11
Riehland Oil Co.	B-G	7	70	7.71	540	634	31	40	254			12	26.11	.53
D. D. Dunlap.	Suple	2	171	23.71	4,051	4,758	230	50	2,379			115	244.56	5.08
Nelsons-Assoc.	King Tut	1	924	8.65	7,993	9,381	454	33 1/2	3,127			151	321.46	6.67
Walter J. Scott	"	M.K. 2	52	2.20	114	134	6	50	67			3	6.89	.13
Progressive	Kingsland	7	52	4.80	250	293	14	50	147			7	15.11	.31
Riehfield Oil	Seoco	1	129	11.14	1,437	1,636	82	50	843			41	86.66	1.81
Totals			16,179		167,924	197,076	9,532		66,881	54,226	5,838	3,235	\$1,300.93	\$142.98

[In margin: Bankline 59.89 3/24 12.48 G. P. 47.41]

Gas. Deliveries	Signal a/c Bankline:	V. P.	Gallons	Price	Amount
Std a/c G. P. Royalty	28.0	54,226	.1028	\$ 5,574.43	
Std Oil #595	28.0	142,850	.1028	14,684.98	
Total Dec., 1954, Deliveries	28.0	197,076	.1028	\$20,259.41	

Gen. Petr. Royalty	Gasoline in kind	V. P.	Gallons
Royalty—Gen Petr		28.0	56,495
√ —Superior			3,569
Less Bankline's Proportion			5,838
Del'd a/c Gen Petr Dec., 1954		28.0	54,226

Propane Sales	Signal Oil & Gas Co.		
	9,532	.0441996	\$ 421.31

Bankline's 5/24th Propane	Amount
Black & Signal	\$ 3.50
Clock	1.54
Jones	4.68
Signal	2.76
Total	\$12.48

EXHIBIT NO. 8-B

Wet Gas Royalty Statement

Signal Oil and Gas Company
811 West 7th Street, Los Angeles 17, California

Lease or Well Bankline Oil Company

Month of December, 1954

Gasoline and Other Liquid Products	Gasoline	Propane	Total
Wet Gas Received—MCF.....	28.0		
Content by Test—Gals/MCF.....			
Theoretical Gasoline Volume—Gals (test x Wet Gas) Production—prorated on theoretical			
gasoline	197076	9532	
Royalty Portion 100%	197076	9532	
Weighted Average Price Per Gallon.....	070236975	.0279176	
Royalty Value	\$13,842.02	\$266.11	\$14,108.13
Wet Gas Received—MCF Dry Gas.....		21656	
Deductions			
Plant Shrinkage, 35 cu. ft./gal.....	6217		
Operation and Losses	1597		
Return to Lease	1726		
Total Deductions.....		9540	
Dry Gas Sold or Excess Purchased.....		12116	
Royalty Portion 100%.....		12116	
Weighted Average Price Per MCF.....		.16	
Royalty Value			\$ 1,938.56
Total Gasoline, Other Liquid Products and Dry Gas Royalty.....			\$16,046.69

Total Royalty

Royalty Distribution:	Interest	Amount	Deductions	Net Credit
Bankline Oil Co.	100	\$16,046.69	*\$673.44	\$15,373.25

Available for delivery to General Petro. Corp.
4209 M.C.F. @ \$.16

Dry Gas Charges

Excess Dry Gas Purchased M.C.F. @ \$ Per M.C.F. \$

EXHIBIT NO. 8-C

Invoice

Signal Oil and Gas Company

General Offices: 811 West Seventh St., Los Angeles 17, Calif.

Sold to Bankline Oil Company Date December 31, 1954
 437 South Hill Street Our Inv. No. #G-12009
 Los Angeles 15, California

Natural gasoline delivered to Standard Oil Company for your account from our Signal Hill Plant #2 during the month of December 1954:

197,076 Gals. 28.0 V.P. @.1028.....\$20,259.41

EXHIBIT NO. 8-D

Date	Cash Voucher	Our P O No	Credits	Balance
12/31	1217 31	G-12009	20259	20259 41

Detach This Statement Before Depositing Check

Endorsement of check hereto attached will constitute the payee's receipt to Bankline Oil Company in full settlement of the bills noted hereon and it is agreed that it shall not be otherwise applied.

EXHIBIT No. 8-E

Oil Settlement Statement

Standard Oil Company of California
 Pipe Line Department — Accounting Division
 225 Bush Street, San Francisco 20, Calif.

Producer and Distribution: Sig Hl Signal Oil Gas Co.,
 Plant 2 1 Signal Oil & Gas Co 36113 1

Month of: 1 Dec. 1954.

Detail of Runs: (Crude Oil in Barrels of 42 U. S. Gallons. Gasoline in U. S. Gallons.)

Day	Ticket Number Reference	Gross Quantity at 60° *	Net Quantity	Price	Gravity Vapor Pressure	Value
1	391628	4622500	4622500		28.1	
2	391629	4487400	4487400		28.1	

3	391638	4438600	4438600	28.0
4	391647	4434900	4434900	28.1
5	391650	4542300	4542300	29.0
6	391657	4493500	4493500	28.5
7	391669	4620500	4620500	27.0
8	391670	4642000	4642000	27.2
9	391935	434200	434200	27.2
10	391940	3133100	3133100	27.5
11	391950	5060900	5060900	27.9
12	391953	5207400	5207400	27.8
13	391965	5090900	5090900	28.0
14	391968	4952100	4952100	27.2
15	391972	4841100	4841100	27.8
16	391973	4671300	4671300	27.7
17	391741	4783300	4783300	28.3
18	391676	4868500	4868500	27.7
19	391686	4918800	4918800	28.0
20	391688	4855900	4855900	28.0
22	391699	4886600	4886600	28.0
23	391715	4702600	4702600	28.3
24	391716	4700700	4700700	27.9
25	391987	4648000	4648000	28.3
26	392000	4781600	4781600	29.0
27	391755	4517300	4517300	29.0
28	391765	4608700	4608700	27.5
29	391772	4704900	4704900	28.0
30	391778	4654800	4654800	28.5
31	391797	4802800	4802800	28.2
30	391691	4948100	4948100	27.6

141055300 141055300

Less a/c G.P. Exch. 475A 5422600

Less a/c Bankline Exch. 595 14285000

121347700 .1028 26.0 124 745 44
28,89231 Bbls.

EXHIBIT No. 8-F

Payment statement

Standard Oil Company of California
 Pine Line Department — Accounting Division
 225 Bush Street, San Francisco 20, Calif.

361 Plant 2 \$124,745.44

The items listed are covered by enclosed check, endorsement of which will be accepted as receipt in full. If in question please write to the above address.

Signal Oil & Gas Co.,
 P. O. Box 17126,
 Foy Station,
 Los Angeles 17, Calif.

	Total Amount
Month of: Dec., 1954	\$124,745.44

EXHIBIT No. 9

On motion made by Martin Weil, seconded by S. A. Patterson, the following resolution was unanimously adopted:

Resolved that the action of the officers in selling to Signal Oil and Gas Company as of November 1, 1952, all of the right, title and interest of this corporation in and to State Lease PRC 421 at Elwood, California, and the Bishop tank farm and sea loading line at Elwood, California, for a consideration of \$25,000.00, be and the same is hereby ratified and approved.

Resolved Further that the action of the President and Assistant Secretary in executing a letter

agreement with Signal Oil and Gas Company dated October 29, 1952, transferring all of Bankline's right, title and interest in and to said properties and in executing assignments of all leases and agreements relative to operations in said area, be and the same is hereby ratified and approved.

On motion made by Martin Weil, seconded by S. A. Patterson, the following resolution was unanimously adopted:

Resolved that the action of the officers of this corporation in selling to Signal Oil and Gas Company as of November 1, 1952, the gasoline extraction plant of this corporation located on Willow Street in the City of Signal Hill, together with the land, structures, facilities, pipe, meters and fittings used in connection with the operation of said plant for the sum of \$25,000.00, be and the same is hereby ratified and approved.

Resolved Further that the action of the President and Secretary of this corporation in executing a letter agreement with Signal Oil and Gas Company dated October 29, 1952, a grant deed dated November 1, 1952, covering said property and a bill of sale and assignment dated November 1, 1952, covering equipment, facilities, pipe, meters and fittings used in connection therewith, be and the same is hereby ratified and approved.

On motion made by Martin Weil, seconded by S. A. Patterson, the following resolution was unanimously adopted:

Resolved that the action of the officers of this corporation in selling to Signal Oil and Gas Company as of November 1, 1952, all contracts for the treatment of wet gas at its Signal Hill Gasoline Extraction Plant for the sum of \$85,000.00, payable in 20 monthly installments of \$4,000.00 each, payable on the 25th day of each and every month commencing on the 25th day of December, 1952, and one installment of \$5,000.00 payable on the 25th day of August, 1954, plus other sums determined in the manner set forth in that certain letter agreement dated October 29, 1952, be and the same is hereby ratified and approved.

Resolved Further that the action of the President and Assistant Secretary in executing a letter agreement with Signal Oil and Gas Company dated October 29, 1952, covering said transaction and assignments of said gas contracts be and the same is hereby ratified and approved.

On motion made by Martin Weil, seconded by S. A. Patterson, the following resolution was unanimously adopted:

Resolved that the action of the President and Assistant Secretary in entering into an agreement with Signal Oil and Gas Company dated December 1, 1952, for the purchase of all natural gasoline extracted by Signal from wet gas processed by it under the provisions of said letter agreement dated October 29, 1952, at the average price received by

Signal for natural gasoline in the Signal Hill Oil Field, be and the same is hereby ratified and approved.

The undersigned, B. L. Arms, hereby certifies that he is the duly elected, qualified and acting Secretary of Bankline Oil Company, a California corporation; that the foregoing are true and correct copies of resolutions duly adopted by the Board of Directors of said corporation at a meeting thereof duly held on December 3, 1952, at which meeting a quorum of said Board was present and at all times acting, and that said resolutions have not been modified or rescinded and are at the date of this certificate in full force and effect.

In Witness Whereof, the undersigned has executed this certificate and fixed the corporate seal of said corporation this 5th day of November, 1957.

[Seal and Signature Indistinguishable.]

EXHIBIT No. 10

Assignment

For and in Consideration of the sum of One Hundred Dollars (\$100.00) and other good and valuable consideration, Bankline Oil Company, a corporation, does hereby sell, assign, transfer and set over to Signal Oil and Gas Company, also a cor-

poration, all its right, title and interest in, to and under the following described instruments:

(a) Contract for the treatment of wet gas, dated June 15, 1936, by and between Bankline Oil Company and Jet Oil Company.

(b) Contract for the treatment of wet gas, dated December 1, 1950, by and between Bankline Oil Company and M. K. Doumani.

(c) Contract for the treatment of wet gas, dated December 6, 1932, by and between Bankline Oil Company and D. D. Dunlap.

(d) Contract for the treatment of wet gas, dated June 9, 1922, amended May 17, 1927, by and between Bankline Oil Company and General Petroleum Corporation.

(e) Contract for the treatment of wet gas, dated October 1, 1938, by and between Bankline Oil Company and Incorporated Production Co.

(f) Contract for the treatment of wet gas, dated January 1, 1952, by and between Bankline Oil Company and Progressive Oil Company.

(g) Contract for the treatment of wet gas, dated March 15, 1934, by and between Bankline Oil Company and William C. McDuffie, as Receiver of Richfield Oil Company of California.

(h) Contract for the treatment of wet gas, dated May 25, 1925, by and between Bankline Oil Company and The Superior Oil Company.

Executed this 1st day of November, 1952.

BANKLINE OIL COMPANY,

By /s/ L. L. AUBERT,
President, and

LUCILLE PYLE,
Assistant Secretary.

Filed at Trial November 25, 1957, T.C.U.S.

In the Tax Court of the United States

Docket No. 60671

BANKLINE OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

TRANSCRIPT OF PROCEEDINGS

Monday, November 25, 1957

The above-entitled matter came on for hearing, pursuant to notice to the parties, at 12:00 o'clock noon.

Before: Honorable Graydon G. Withey,
Judge Presiding.

Appearances:

MELVIN D. WILSON, ESQ.,
621 South Hope Street,
Los Angeles 17, California,
For the Petitioner.

MELVIN H. WILSON, ESQ.,
621 South Hope Street,
Los Angeles 17, California,
For the Petitioner.

E. C. CROUTER, ESQ.,
Assistant Regional Counsel, by
MARK TOWNSEND,
1135 Subway Terminal Building,
Los Angeles, California.

The Court: Call the next docket.

The Clerk: 60671, Bankline Oil Company.

The Court: Will counsel state their appearances?

Mr. Townsend: Mark Townsend for the Respondent.

The Court: Will you state your appearance?

Mr. Wilson: Melvin D. Wilson for the Petitioner, and Melvin H. Wilson for the Petitioner.

The Court: What is the last name?

Mr. Wilson: Melvin H. Wilson, your Honor.

The Clerk: I believe only Mr. Melvin D. Wilson is of record. I will need your appearance, Mr. Wilson.

The Court: As I understand, there is a fact stipulation in this case?

Mr. Townsend: Yes, your Honor. Would you like it offered at this time?

The Court: Yes. Do you have some attached stipulations?

Mr. Townsend: Yes, your Honor.

We have a stipulation of facts with ten exhibits attached, which I herewith offer.

The Court: Is there an objection?

Mr. Wilson: No.

The Court: It may be received with the designated exhibits.

(Petitioner's-Respondent's Exhibits Numbers 1 to 10, inclusive, were marked for identification and were received in evidence.)

The Court: Now, if there is nothing else preliminary, I will hear the opening statement.

Mr. Wilson: If the Court please, the only question in this case is whether the taxpayer is entitled to get capital gains treatments on two items in 1952 under a contract, an \$85,000 item and an \$11,000 item.

The Petitioner contends that these amounts were received for the sale of casing-head gas contracts, and the Government contends that they received \$85,000 as a bonus for giving Signal Oil and Gas Company a job of processing gas from these contracts.

The Petitioner had a casing-head gas plant in the Signal Hill oil field near Los Angeles. It had but eight gas purchasing contracts, enough to make a

little profit, but not enough to make a large profit from that plant, and the Signal Oil and Gas Company had in that same field a casing-head gas plant, and sufficient gas contracts to make a successful operation.

The parties had some common interests up near Santa Barbara, California, the Elwood field, where they had some common interests in pipe-line, a pier, and some tanks, and then Petitioner also had a small oil lease up there.

So, the president of Petitioner and vice-president of Signal knew each other, and met from time to time and discussed their common problems up north, and the situation down here, and they gradually evolved a deal whereby Signal would buy the casing-head gasoline plant here, and the contracts, casing-head gas contracts, and the Petitioner's interests in that pier, pipeline, tanks, and oil lease up near Elwood for a lump sum of \$135,000, plus further amounts to come out of production of these casing-head gas contracts down here.

Then Petitioner, or then Signal, wishing to know how to allocate this \$135,000 between intangible and tangible interests, asked Petitioner to allocate it to make it allocated by the contracts, and Petitioner didn't, wasn't too interested, and didn't particularly make appraisal between the assets, so it said give us an indefinite amount allocated to these casing-head gas contracts that will be treated as capital gains.

So, Signal did that. Now, under these casing-head gas contracts that were sold, and subject of

this controversy, Petitioner had to pay to the oil producers who produced the wet gas that was being processed, had to pay to those underlying producers 42½ per cent of the value of the gasoline and the propane and the dry gas sold.

Now, Signal did not assume that underlying royalty obligation, but took over Petitioner's equity, as I call it, in the contract, and agreed to pay Petitioner 70 per cent of the value of the gasoline and the propane, and all the dry gas, and Petitioner then was to pay the underlying royalties, and to keep 27½ per cent, the difference between 70 and 24½ per cent.

The Petitioner would keep that 27½ per cent. So, this deal was executed along that line, \$85,000 being allocated to these contracts, and \$50,000 to the tangible assets, and Signal took over the plant, casing-head gasoline plant, and salvaged it, and then processed these contracts through its own plant thereafter.

Now, of course, Signal didn't have to build the plant, so it could afford to pay a pretty good price for these casing-head gas contracts. This gas was settled in a field, and very rich, producing about, at that time about 750,000 cubic feet of wet gas a day, which produced about nine gallons of gasoline per thousand cubic feet, so that it would figure up to be worth several hundred thousand dollars, depending upon how long it would last.

Incidentally, the average of the richness or quality of wet gas in the state was about two and a half gallons per thousand cubic feet. This had nine.

Petitioner wanted to buy back that gasoline that was produced, because it wanted to blend it with its other gasoline or refined products. Signal didn't care, because it sold all of its gasoline that it made, anyway, so it agreed to sell back to Petitioner.

In the fall of 1957, Petitioner had an excess of gasoline it didn't need for blending purposes. It asked Signal to cancel that gasoline purchasing contract, and Signal did sell. The only consideration to this case that Petitioner gave was whether it would press its case. It did not do it for this case, but it wouldn't have done it if it hurt the case.

Signal is now selling this gasoline producing from these casing-head gas contracts to Standard Oil Company as it sells the rest of its products.

Now, Petitioner's books have erroneously recorded this transaction in the operations under this contract. The books showed that the gasoline was made from the contracts that had been transferred to Signal was Petitioner's gasoline, and Signal was simply doing a processing job for Petitioner on a gallon basis. This was contrary to the contracts, and to the resolution of the Board and to the assignment of the contracts, and to the testimony of the negotiating officers. The testimony will show that these books were so kept because Petitioner had to pay its royalty to the wet gas producers on the basis of 100 per cent of production.

Petitioner reported this \$85,000, this capital gain, from the sales of its business, and reported the \$11,000 as ordinary income, but now claims that everything was capital gain.

I think the testimony will show that they always are talking about the sale of these casing-head gas contracts, and not about giving Signal a job, and giving it a bonus for that job.

Mr. Townsend: If the Court please, in this case involving the year 1952, the Commissioner has determined a deficiency in income tax in the amount of \$14,342.52, and Petitioner claims an overpayment in the amount of \$10,688.30.

The facts are that as of November 1, 1952, Petitioner owned a casing-head gas plant and pipelines located in the Signal Hill oil field, California. Prior to that date, Petitioner had entered into certain contracts for the acquisition of wet or casing-head gas from various oil producers, from leases held by such producers on land located in Signal Hill oil field.

Petitioner was engaged in the business of processing such gas and selling the processed products, which consisted of natural gasoline, propane gas, and dry gas.

The Petitioner had entered into most of such contracts in earlier years, and was paying the producers royalties averaging approximately 40 per cent of the amounts received from the natural gasoline, propane, and dry gas. By 1952, the going rate of royalties for such products under similar contracts was approximately 65 per cent, so that Petitioner had a differential of about 25 per cent, as compared with current acquisitions of similar contracts.

Signal Oil and Gas Company also operated a casinghead gas plant in the Signal Hill oil field, and was engaged in the same business as Petitioner.

On November 1, 1952, Signal purchased Petitioner's oil and gas plant, and, thereafter, dismantled the plant while continuing to operate its own plant.

On the same date, November 1, 1952, Petitioners entered into an agreement with Signal Oil and Gas Company whereby Signal was to process the gas under the contracts Petitioner had previously entered into with various producers.

Under the terms of this agreement, Signal was to process all the casing-head gas under the contracts, sell the finished products, and pay over the proceeds of such sales to Petitioner, less processing charges.

This agreement, in form a purchase and sale agreement——

The Court: What do you mean by "processing"?

Mr. Townsend: Your Honor, that is more or less of a technical process whereby wet, or casing head, gas is taken right from the well and run through a plant and through a series of machines and refining changes to whereby the three different products are produced: Natural gasoline, propane, and dry gas.

The Court: Is that synonymous, then, with refining?

Mr. Townsend: I do not believe so, your Honor. I think refining is another step further on. I think

we will have some experts here today that can give a pretty good description of the various steps.

This agreement, which was, in form, a purchase and sale agreement, provided that Signal would pay \$85,000 to Bankline purportedly as consideration for the purchase of such gas contracts. The payment was effected by an installment note dated December 1, 1952, bearing no interest, promising to pay the \$85,000 in twenty monthly installments, commencing on December 25, 1952.

On the same date as the other agreements; namely, November 1, 1952, Signal and Petitioner entered into another agreement, also in the form of a purchase and sale, under the terms of which Petitioner purportedly purchased all the natural gasoline produced by Signal.

The evidence will show that the operations between Petitioner and Signal were carried on in the following manner:

(a) With respect to the natural gasoline produced, this was delivered for the account of Petitioner and at Petitioner's instructions, and this was by far the most valuable product that was processed. Signal billed Petitioner for the total amount produced, and Petitioner remitted this amount to Signal. Signal then deducted its processing charges from this amount, and returned the remainder to Petitioner.

(b) The liquid propane was produced and sold by Signal, and the amounts received from such sales, less Signal's processing charge, were remitted to Petitioner.

(c) The dry gas, in excess of that returned to leases, and used in plant operations, were sold by Signal, and the total amounts received from such sales were remitted to Petitioner, as Signal did not charge for processing the dry gas.

The Petitioner remained liable for the royalty payments under the gas contracts with the producers, and actually paid those royalties over the years, though payments to some of the producers were made by deliveries in kind. These royalties were paid by Petitioner out of the amounts remitted by Signal Gas Company.

There are two amounts in issue in this trial for the year 1952; first is to decide the nature of the \$85,000 payment received by Petitioner under the contract with Signal; and the second is to decide the nature of the \$11,293.87, which is the net amount retained by Petitioner after the payment of the royalties.

Petitioner reported the \$85,000 on its 1952 return as long-term capital gain, and the \$11,351.42 as ordinary income.

Petitioner here contends that it sold the gas contracts to Signal; that those contracts have been held for more than six months, and that, therefore, the \$85,000 and the \$11,293.87 represent long-term capital gain.

While the net amount retained by Petitioner under the two months of operations in the year 1952 was only \$11,351.42, this is a continuing issue which involves hundreds of thousands of dollars in the years after 1952.

The Respondent has determined that all the amounts received by Petitioner represent ordinary income. Respondent contends, first, that no sale or exchange has taken place. Petitioner has not, or has failed to cut all the strings in this case.

The Respondent contends that Petitioner merely farmed out the processing to Signal. This is illustrated by the natural gasoline operations, and, again, the natural gasoline represents approximately 90 per cent of the total value of all the products involved, and Petitioner had the same control over that natural gasoline as it had when it handled its own processing. The only money involved in this natural gasoline operation was the Petitioner's. Thus, Petitioner paid Signal for the natural gasoline produced, Signal deducted its processing charges, and returned the balance to the Petitioner.

Obviously, these natural gasoline operations could have been handled by the Petitioner by paying the processing charge to Signal, rather than following the procedure of transferring funds from one pocket to the other. Those gasoline products were disposed of by Petitioner in the same manner as similar products were produced and sold by Petitioner in the regular course of its business.

With respect to the propane and dry gas products, Respondent contends Signal merely acted as an agent for the Petitioner in selling the products and turning over the receipts, less their processing charges for propane to the Petitioner.

Respondent further contends that Petitioner did not dispose of the capital asset; all that Petitioner

assigned to Signal was the right to process the gas under the contracts. Petitioner received the proceeds from the sale of the products, and made the royalty payments under the contracts. The right to process the gas, while it may constitute property, is not a capital asset because it is only a contingent right to receive compensation for services to be performed in the future.

As there was no sale or exchange of capital assets, the percentage provision of Section 117 of the 1939 Code is not applicable, and the amounts in issue, therefore, constitute ordinary income.

Now, in the alternative, Respondent contends that if anything was sold under these transactions, it amounted to a mere resale of raw materials which was the wet casing-head gas, and Bankline acted as the middle man. Such materials would not be held for six months, and in view of the magnitude of the operations, they were actually held for sale to customers in the ordinary course of Bankline's business.

The Court: Call your first witness.

Mr. Wilson: Mr. Green.

RUSSELL H. GREEN

was called as a witness by and on behalf of the Petitioner, and, having been first duly sworn, was examined and testified as follows:

The Clerk: Please be seated. Please state your name and address.

The Witness: My name is Russell H. Green; my address is 811 West 7th Street, Los Angeles.

(Testimony of Russell H. Green.)

Direct Examination

By Mr. Wilson:

Q. What is your occupation?

A. I am executive vice-president of the Signal Oil and Gas Company.

Q. Were you, in the fall of 1952, a vice-president of Signal Oil and Gas Company? A. I was.

Q. Will you please explain the operations of casing-head gasoline plants?

A. A casing-head gasoline plant is a plant which came into existence because of the fact that when oil is produced from an oil field, it produces, along with—or, rather, gas and other hydrocarbons are produced along with it, and brought to the surface. The gas, as we know it, is separated at the surface of the ground in a trap, which is simply a mechanical means of separating the oil which is going to be shipped, probably, to refineries from the volatile matters, or the gas which is not going to the refinery.

Now, that gas, because of its condition of pressure and, in some respects, due to the gravity of the crude, has certain fractions in it which can be extracted. The gas that comes from the trap is commonly known as wet gas, and that wet gas is taken from the trap through pipe-lines to a plant which is installed for the purpose of taking out the so-called wet gas those fractions which can be utilized in another manner, and the gas coming from

(Testimony of Russell H. Green.)

the plant, now known as dry gas, is usually sold to a gas company or used for burning in the boilers.

The gas, wet gas, going into the plant, is put through a series of towers, over which oil is pumped, the gas coming into the bottom of the tower. Oil, the absorption oil, is something like kerosene, pumped into the top of the tower.

As the oil mingles with the gas, the gas processing goes vertically through the tower, and the oil coming down through the tower, the absorption oil absorbs out these hydrocarbon fractions, and the gas coming off the top of the tower is known then as dry gas. The absorption oil containing the hydrocarbon fractions is put through a distillation system, so that the hydrocarbon fractions are distilled off the absorption oil; and then can be re-used, and the hydrocarbons are separated, usually, into—and depending upon what you want to do—propane, butane, and what we call natural gasoline.

Natural gasoline, ordinarily, is considered, sometimes thought of as 26-pound vapor pressure, but that can be changed, depending on how and what basis you operate your gasoline plant, so that at the plant, then, you make the gas, you cause the gas to become dry gas, and then you have the resultant products, which can be propane, butane, and what we call natural gasoline.

Mr. Wilson: May I see the stipulation just a moment? Where are the documents; are these the documents?

(Testimony of Russell H. Green.)

The Clerk: Yes.

Q. (By Mr. Wilson): Mr. Green, I will show you some of the exhibits to the stipulation which has been filed in evidence in this case. Here is one dated October 29, 1952, called Exhibit 1. Just for the sake of the record, I will say this one has to do with the fixed or tangible assets, and Exhibit 3 is also dated October 29, 1952, and this has to do with the casing-head gas contracts.

You are familiar with those? A. Yes.

Q. Did you handle any of the negotiations leading up to the execution of these two contracts?

A. Yes, I did. You might say that I initiated them.

Q. Will you state to the Court the principal steps in the execution of these contracts?

The Court: You mean execution, or—

Q. (By Mr. Wilson): The negotiation and execution of the contracts.

A. Well, I had known Mr. Aubert, president of Bankline, for many, many years. We have seen each other, and as Signal Hill declined from its peak production, it became evident that certain of the gasoline plants were no longer—would sooner or later reach the point that they no longer would be economic; and I had suggested to Mr. Aubert that on several occasions that if he did reach the point where his plant was no longer economic, that we would like very much to consider buying his gas contracts, taking over his plant on some basis.

His answer to me, several times, was, well he rec-

(Testimony of Russell H. Green.)

ognized their production had dropped considerably, but they had a number of operators and men who were working the plant who were oldtimers of Bankline, and they would hang on as long as they could, and if they ever got to the point that he would consider it, he would let me know.

We also were operating—rather, shipping oil that we had at Elwood; that is, Signal Oil and Gas Company had leased at the west end of Elwood Field, shipping the oil through a marine loading plant that the Bankline Oil Company had at Elwood, which consisted of two 80,000-barrel tanks a marine line which went out into the ocean, so the tankers could come up and take away a tank load of oil at a time, and we, Signal, together with some other companies up there, Honolulu, Bankline itself, which had a small lease, shipped our oil into these 80,000-barrel tanks, and the Bankline arranged the routing of tankers that came to take the oil from those 80,000-barrel tanks.

One day, Mr. Aubert called me and wanted to know if we could have lunch together, as I recall it, and it developed that he would consider making a deal on this gas at Signal Hill at the same time, if we would consider the purchase of the tanks in the marine loading facilities at Elwood; the reason being on his part that the production from his own lease was practically zero; the Honolulu lease had been abandoned, and that only oil going through there came from Signal property, practically the only oil, and, since he was handling that oil on a

(Testimony of Russell H. Green.)

five-cent-a-barrel through charge, it had gotten to the point that, with the maintenance problems and things that he had, that it was questionable that he could continue to operate that station.

We were concerned—I was concerned, because, since we had the majority of the oil of that Elwood, if, for some reason, the loading line was no longer used, was shut down, or was not maintained in the proper fashion, we would be the ones that would suffer, since, if the loading line was put out of commission, we would have to truck our oil, or do something different with it; so I was very interested in the problem of the tanks at Elwood, and the gas at Signal Hill, which I talked to him about. We talked about the matter.

I had talked to Mr. Heath, R. W. Heath, who was vice-president of our company in charge of our gasoline department, and the upshot of it was that we negotiated with Mr. Aubert, and arrived at a price of \$135,000, which was to cover the purchase of that gas contract at Signal Hill, the purchase of that gasoline plant, the purchase of the land at Signal Hill on which the plant stood, the purchase of their interest in these tanks, their interest in the loading line at Elwood, the oil, their interest in the oil lease they had, which consisted of four very small wells, and whatever right-of-ways and facilities went along with that operation.

As part of that operation, Bankline was—well, I think I have answered your question to the point.

(Testimony of Russell H. Green.)

Q. Did Signal Oil and Gas Company have a casing-head gas plant in this Signal Hill oil field?

A. Yes, we had built the first plant in Signal Hill.

Q. Now, you mentioned the total price was to be \$135,000. Of course, the contract is in evidence, but were there any other considerations besides that?

A. In addition to the \$135,000 which we paid for the things I have described, Hancock—I mean, Bankline was to receive additional sums which were the difference between what they were paying to the producers of the wells there, which their natural gasoline, gas, came from at Signal Hill, and the amount of money which we fixed on as what we were prepared to pay Bankline.

In other words, we were going to retain approximately 30 per cent of the value of the natural gasoline which we extracted from the gas, and pay the balance to Bankline.

Bankline, as part of that, agreed to take on the problem of the maintenance of the pipe-lines which were necessary, which they had previously installed. They had an extensive system of pipe-lines coming from their wells into a main pipe-line system. That pipe-line system paralleled our place, I think it was on Cherry Street—I've forgotten—and we were to install a master meter whereby we metered the gas coming from the Bankline well at one point. We accounted for it to Bankline, that gas as registered on that meter, and Bankline took on

(Testimony of Russell H. Green.)

the obligation of taking the daily meter readings from the various wells, just like they had been doing, taking it daily, taking it monthly, gasoline checks, and, more important still, maintenance of the pipe-line system, anything that happened to that pipe-line system; and that was one of the things that bothered Mr. Heath and myself, because the pipe-line system, like ours, was very old, and corrosion and things like they are, we were concerned with whether we would be faced with extensive repairs to the old Bankline system.

Q. Did Signal Oil and Gas Company make an appraisal of the assets to be covered by this contract?

A. We made an appraisal as you normally go about it in your company. The deal was not large as we looked at it, but Mr. Heath and I went to considerable length to try to valuate particularly the problem we had at Elwood, and Mr. Heath the problem we had at Signal Hill.

Q. Do you recall about what the production was, that wet gas at Signal Hill, from Bankline's contracts?

A. My recollection of the gas volume was that it was about three-quarters of a million cubic feet of gas. It was exceptionally rich, due to the location of the wells, and the character of the oil. My recollection is, the gasoline content per 1,000 cubic feet was between eight and nine gallons per thousand.

Q. Do you recall the price of wet gasoline, casing-head gasoline, at that time?

(Testimony of Russell H. Green.)

A. Well, it was approximately $8\frac{1}{2}$ cents a gallon, natural; 8.33, I think it was.

Q. Could you give us any idea of what the value of those casing-head gas contracts might be at that time?

A. Well, as we tried to weigh the Signal Hill, it is a very long-life field. The wells, we figured, would last a considerable length of time. One of the handicaps, of course, is that when you negotiate for natural gas, you have no control of the well production because the production is in the hands of operators, and they decide what they are going to do by their oil production, and by their natural gas production.

In other words, to the best of our judgment, we thought a value of \$85,000 of the \$135,000 to be what we considered the value.

Q. Were you familiar with the going rate of royalties to be paid to producers of wet gas in the fall of 1952? A. I think so.

Q. Would you give us an idea of what was being paid?

A. In original days at Signal Hill, the old gasoline royalties started at about 25 per cent. In about 1952, I would say the going rate was 55 per cent for natural gasoline.

Q. Do you know of any casing-head gas contracts in the southern California area before 1952 which called for a royalty of around 70 per cent?

A. Yes, the Signal Oil and Gas Company negotiated a contract with Huntington Beach, with

(Testimony of Russell H. Green.)

the Southwest Exploration Company, and I think we paid a royalty of 65 per cent. The Signal Wilmington Associates, which took all the gas from the City of Long Beach, Long Beach oil development, close in the harbor, paid a royalty, I think, of 62½ per cent.

Q. Do you recognize this document?

The Court: If you intend to examine the witness relative to that document, will you have it marked for identification?

Mr. Wilson: I would like to mark this for identification, please, Exhibit No. 11.

The Court: It will be the next exhibit.

The Clerk: Exhibit 11 for identification.

(Petitioner's Exhibit No. 11 was marked for identification.)

Mr. Wilson: Thank you.

The Clerk: Exhibits 1 to 10 are attached to the stipulation.

Mr. Wilson: Thank you.

The Clerk: 12 for identification.

(Petitioner's Exhibit No. 12 was marked for identification.)

Q. (By Mr. Wilson): Do you recognize this document? A. Yes.

Q. What is it, please?

A. This is a contract entered into between Signal Oil and Gas Company and the Southwest Exploration Company. It covers the treatment by Sig-

(Testimony of Russell H. Green.)

nal of Southwest's gas in the Huntington Beach Oil field, which covered a great, large number of wells, and a very large amount of production.

The Court: That reference by the witness was to Exhibit 11 for identification.

Mr. Wilson: I would like to offer this in evidence, if your Honor please.

Mr. Townsend: Could I ask if the purpose of the offer is merely to show the royalty per cent paid?

Mr. Wilson: Yes, that is right.

Mr. Townsend: For that limited purpose, I have no objection.

The Court: It may be received for the stated purpose.

(Petitioner's Exhibit No. 11 was received in evidence.)

Q. (By Mr. Wilson): Do you recognize this document?

A. Yes. This is a contract—

The Court: The witness is handed Exhibit 12 for identification.

Mr. Wilson: Thank you.

A. (Continuing): This is a contract between Lomita Signal Wilmington Associates and the Board of Harbor Commissioners, City of Long Beach, and covers their gas from parcels W, X, Y, and Z, usually referred to as the Long Beach Oil Development Company property in the Long Beach Harbor field.

(Testimony of Russell H. Green.)

Mr. Wilson: I will offer this in evidence for the same purpose.

Mr. Townsend: No objection.

The Court: It is received for the same stated purpose as Exhibit No. 11.

(Petitioner's Exhibit No. 12 was received in evidence.)

Q. (By Mr. Wilson): Mr. Green, how did you justify having Signal Oil and Gas Company pay Bankline \$85,000 for these gas purchase contracts, plus 70 per cent of the gasoline and perhaps more than that on the propane?

A. It was a matter of evaluation. We looked at the facts in the first place, that we had a large gasoline plant, and that we had excess capacity. We could run this gas through the plant with practically no additional cost.

In the second place, the gas, according to our appraisal, would be there for a long time. It should have a slow decline curve, and should produce for a considerable period of years. We considered, also, the fact that the gas was very rich, between 8 and 9 thousand gallons per thousand cubic feet.

Considering all those factors, we felt that our offer was justified. I think that the past has proved that.

Q. Did you have anything to do with the allocation of the \$135,000 as follows: \$85,000 for the contracts, and twenty-five for the Signal Hill gasoline plant, and twenty-five for the Elwood assets?

(Testimony of Russell H. Green.)

A. Yes, I did. Actually, in the negotiations, we bought the whole works for the sum of \$135,000, and in discussing the matter, however, for our own books, we had the problem, we were buying what amounted to a package deal, including some land and a gasoline plant, and gas contracts, the interest in the tanks at Elwood, and so, discussing with our accounting department, we, for our purposes, wanted to in some way evaluate the different items, and out of it came the figures which we have used and, I think I thereupon asked Bankline, as I recall it, whether they would have any objection to breaking the thing down, and that's the way it came about.

Q. Did you ever discuss with Mr. Aubert, or anybody else on behalf of Bankline, the matter of Signal getting a job of processing Bankline's gas at Signal Hill, paying a bonus for that job?

A. We never discussed any such proposal.

Q. Are you familiar with the contracts of that type, where one processor does a job of processing for another one?

A. Yes, processing agreements are somewhat common, although they vary in character.

Q. Do they differ from the type of contract that we have entered in, for the purpose entered into by Agreement No. 3—Exhibit 3?

A. I would think they differed very basically.

Q. Would you give us some of the differences?

A. A processing contract, from my experience in the gasoline business, is one which the person

(Testimony of Russell H. Green.)

who is having their gas processed, has the right, and usually on very short notice, to discontinue the processing.

It is work that is done on a temporary basis. We have processed gas, but at all times, it is a case in which you, on a short notice, discontinue the processing.

Q. Are there any other differences that you recall?

A. Well, in addition to that, for instance in the case that we have here, where we set our income from this gas at $2\frac{1}{2}$ per cent per gallon, the processing deal would, at least in Signal Hill or in the gasoline business, would be on a much lower scale and processing charges or actually a cent a gallon is usually high, in my experience. It has been somewhere around three-quarters, 85-hundredths of a cent a gallon.

Q. Would that vary with the vapor pressure, or the price of gas?

A. It would vary, but somewhere around a cent has been my experience, as far as processing deals are concerned.

Q. Do you think of any other differences?

A. Primarily, the ability to cancel out on short notice is the essential thing I think of.

Q. Is it customary in oil practices when there is a processing job to be given out, to give or receive a bonus?

A. I have never heard of such a thing.

Q. Do you know to whom Signal is selling the

(Testimony of Russell H. Green.)

gasoline that they process from these former Bankline casing-head gas contracts?

A. Well, we have a contract which covers all gasoline which we produce in the state of California, so that with the Standard Oil Company, who are now taking gasoline.

Mr. Wilson: I have no further questions.

The Court: Cross-examine.

Cross-Examination

By Mr. Townsend:

Q. Mr. Green, how long has your plant been operating in the Signal Hill area?

A. We built it originally in 1921.

Q. I believe you stated that that was more or less in competition with the Bankline plant in the Signal Hill area?

A. Oh, we were in competition with a lot of people in the Signal Hill area; not necessarily Bankline. Bankline was nothing but a small plant.

Q. You were in competition with them?

A. Oh, yes, sure.

Q. I take it at the time of this contract, you were operating at least full capacity?

A. That's correct.

Q. I believe you have already stated it would have been more economical to operate at full capacity; you can run this extra production through at lower cost?

A. That's right.

(Testimony of Russell H. Green.)

Q. Was Bankline's plant comparable in any way with your plant?

A. Just how do you mean that? What are you looking at?

Q. For example, would they have very much the same costs or operations?

A. All natural gas absorption plants have the same cost of operation; the Shell, the Signal, the Reservoir Hill gasoline plant, the Signal Hill gasoline plant; they all operated in approximately the same way. Some of them operated different pressure; some of them have weather equipment. Basically, the process is the same, yes.

Q. Now, referring to this note, for \$85,000, which is Exhibit 4, were there any extensions on that note?

A. I really don't know.

Q. Why is it that no interest was provided on that note?

A. Simply because we arrived at a price of \$135,000 and because Signal at that time didn't have \$135,000 in their pocket. They asked if they couldn't pay so much down and so much a month.

Q. Without interest?

A. If that is what it is, that's what it is.

Q. Was there any discussion of capital gain treatment on this \$85,000 payment at the time of negotiations?

A. Not that I recall, no.

Q. You do not recall any? A. No.

Q. When did the discussion first arise, Mr. Green, about the capital gain treatment?

A. I don't know that I was involved in the dis-

(Testimony of Russell H. Green.)

discussion of capital gain. There was a letter signed which indicated we would take on what tax liabilities there were, but that was a matter that our tax people looked at.

Q. You signed that letter, did you not?

A. If I signed the letter, I signed it.

Q. Directing your attention to Exhibit 5, will you see if that refreshes your recollection, Mr. Green? A. Yes.

Q. That letter is dated December 1, 1952?

A. Yes.

Q. So, I take it there must have been some discussion at or about the same time?

A. My recollection is now that when we came, when this question of \$135,000, that is, our request to Bankline that they split it up so that it was \$85,000 for one, and \$5,000 or \$25,000 for the others; that, some way or other, Bankline came up with the idea, we were willing to split it, but if they did, there might be a situation as to the tax question, and our tax people said they couldn't see there was any liability involved in that, and that, out of that discussion, apparently, came the letter which is here, that we agreed to indemnify Bankline; that's correct.

Q. In your contract, Exhibit 3, you have set out in there a price of 8.33 cents per gallon for natural gasoline. How would the propane price be determined?

A. I think the propane was at a half cent a gallon.

(Testimony of Russell H. Green.)

Q. Would that be a fluctuating price on propane as in the natural gasoline?

A. My recollection is—but I am not positive—that that fluctuated. I can't say; I don't recall what the contract said.

Q. I show you contract, Exhibit 3. I haven't been able to find any reference to propane.

A. It says "LBG propane," which is $1\frac{1}{4}$ cents a gallon.

Q. That was Signal's share, was it not?

A. That's right.

Q. Your natural gasoline is based on a present market price set by Standard Oil Company; how would your propane price be determined, or would that not fluctuate?

A. I would say, according to this, it says at the same price, $1\frac{1}{4}$ cents.

Q. It would remain the same. I believe you testified that in 1952, the going royalty rates with oil producers was about 55 per cent; is that correct?

A. That's my recollection of it.

Mr. Townsend: I have no further questions.

The Court: Anything further?

Mr. Wilson: I would like to ask one question.

Redirect Examination

By Mr. Wilson:

Q. Mr. Green, you stated that the costs of operation of all the casing-head gasoline plants in Signal Hill would be the same?

A. The cost of operations? If I said "cost," it

(Testimony of Russell H. Green.)

was the process was similar, but the cost would not be the same.

Q. Would it vary with the volume?

A. Oh, sure.

Mr. Wilson: That is all.

The Court: You may step down.

(Witness excused.)

Mr. Wilson: Mr. Aubert.

L. L. AUBERT

was called as a witness by and on behalf of the Petitioner, and, having been first duly sworn, was examined and testified as follows:

The Clerk: Please be seated.

Direct Examination

By Mr. Wilson:

Q. Will you state your name and occupation, Mr. Aubert?

A. My name is L. L. Aubert, and I am president of Bankline Oil Company.

Q. Give us your address, too, please.

A. My home address is 401 South Burnside, Los Angeles.

Q. Your office address?

A. 437 South Hill Street, Los Angeles.

Q. Were you president of Bankline Oil Company in the fall of 1952? A. I was.

Q. I believe you have examined the stipulations, or the retained copies of it, and I show you Exhibit

(Testimony of L. L. Aubert.)

1, Exhibit 3, and will you examine those, and see if you are familiar with them?

You are familiar with those? A. Yes.

Q. Did you negotiate those contracts on behalf of Bankline Oil Company? A. Yes.

Q. With whom did you negotiate?

A. With Mr. Green of Signal Oil and Gas.

Q. You heard Mr. Green testify about the negotiations. Do you corroborate what he said about the negotiations of this [33] contract, or do you want to state it to the Court how you saw it?

A. Well, I would state it about the same as Mr. Green had stated it. We negotiated the contracts, and we agreed to sell the facilities and the contracts for a total of \$135,000, and retaining such sums as may come out of production from the natural gas.

Now, as to the division of the \$135,000, I believe I didn't know too much about that. It was a matter which probably was more helpful to Signal, and the \$50,000 for the facilities, and the \$85,000 for the natural gas contracts was somewhat their idea, but it was perfectly agreeable to me as long as we got the \$135,000.

Q. Did you ever discuss with Mr. Green the matter of giving Signal a job of processing your gas and getting a bonus for it?

A. No. No. I didn't discuss that with anybody, with Signal, for that matter.

Q. Did you ever instruct your accounting department as to the manner in which this transaction and the operations under it would be recorded

(Testimony of L. L. Aubert.)

on your books? A. No. No, I never did.

Q. Did you know until recently how it was handled on the books?

A. I didn't know until, just until this matter came up, and I was shown one of the distribution sheets from our records.

Q. Will you examine Exhibits Nos. 9 and 10 in this stipulation, and while you are at it, I will have you look at Exhibit 8? You have examined that recently, I believe?

A. Yes; I believe I did.

Q. Looking at Exhibit 8, and especially 8-A, do you understand that it shows that in December of 1954, which was taken as a typical month, which was the same as every other month in 1952, it shows that Bankline sold natural gasoline and propane to Signal under the contract called Exhibit 3, and that it charged Signal for the gasoline and propane after allowing Signal a credit for a processing charge.

Is that your understanding of that journal entry?

A. Yes; that is what this would appear to show.

Q. Mr. Aubert, as the chief executive of your company and the officer who negotiated these contracts, does that journal voucher correctly, in your opinion, reflect the transactions under these contracts? A. No; I don't believe it does.

Mr. Townsend: Your Honor, Respondent objects to that question on the grounds it calls for a conclusion from this witness. I do not think the foundation has been laid for his background and,

(Testimony of L. L. Aubert.)

further, I think it is an issue to be decided by this Court.

The Court: Yes; I am inclined to sustain that objection. That is one of the issues leading to a final conclusion of this case.

Q. (By Mr. Wilson): May I ask, Mr. Aubert, if in your opinion that entry conforms to the negotiations that you entered into?

A. It doesn't appear to.

Q. Do you recognize this document?

The Court: Is that an exhibit?

Mr. Wilson: I would like to have this marked for identification, No. 13.

The Clerk: 13 for identification.

(Petitioner's Exhibit No. 13 was marked for identification.)

Q. (By Mr. Wilson): Do you recognize that document? A. Yes; I do.

Q. What is that, please?

A. What did you say, sir?

Q. Will you state what it is, or did you negotiate that document? A. Yes; I did.

Q. Would you explain the background of that negotiation and the execution of that contract?

A. We purchased the natural gasoline from Signal and used that natural gasoline in our blending operations at our refinery at Bakersfield. Due to a change that took place in our operations about June of 1957, we required less natural gasoline than we had contracted to handle, and our natural gaso-

(Testimony of L. L. Aubert.)

line inventory started to accumulate. I looked about for places that we might dispose of natural gasoline, and this was one of the avenues that we thought was possible, so I contacted Mr. Heath of Signal Oil and Gas, and asked him if it would be agreeable with him if we could terminate this agreement wherein Bankline purchased natural gasoline from them, as of October 1, 1957.

He said that that would be fine, that it was all right with him, to just write a letter; so I did, and this is it.

Q. I notice that you had entered into two contracts with Signal, dated December 1, 1952, and this letter does not identify which one you were cancelling. A. The one of December 1, 1952.

Q. There were two contracts dated December 1, 1952.

A. It was the one in which we purchased the gasoline.

Mr. Wilson: I would like to offer this in evidence.

Mr. Townsend: No objection.

The Court: It may be received.

(Petitioner's Exhibit No. 13 was received in evidence.)

(Testimony of L. L. Aubert.)

PETITIONER'S EXHIBIT No. 13

Bankline Oil Company
437 South Hill Street
Los Angeles 13, California

September 30, 1957.

Mr. R. W. Heath, Vice President,
Signal Oil and Gas Company,
811 West Seventh Street,
Los Angeles 55, California.

Dear Ronnie:

This letter confirms the cancellation of our agreement dated December 1, 1952, effective October 1, 1957.

Please indicate your approval on the copy of this letter enclosed herewith and return it to us for our records.

Very truly yours,

/s/ L. L. AUBERT,
President.

LLA:LL

Accepted and Approved this 9th day of October,
1957.

SIGNAL OIL AND GAS
COMPANY,

By /s/ P. W. HEATH.

Admitted in evidence November 25, 1957.

(Testimony of L. L. Aubert.)

Q. (By Mr. Wilson): Mr. Aubert, in negotiating for and executing that contract, did you give any consideration to this tax case?

A. On the cancellation?

Q. Yes.

A. Well, I didn't know whether it would affect our status or not, and I asked Mr. Weil whether the cancellation of this agreement would affect us in any way, and he said he didn't think so.

Q. Did you, about this date in the fall of 1957, cancel any other casing-head gasoline purchase contracts?

A. Yes; we did. Lomita Gasoline Company treats some gas for us, and, heretofore, we had taken our royalty natural gasoline in kind, for use in our refinery, and on September 1, I wrote them terminating our election to take our natural gasoline in kind.

Q. Any others?

A. So, it took that one out of the way. We have an agreement to purchase natural gasoline from the Sun Ray Mid-Continent at Newhall, and on October 1, I negotiated a deal whereby we would resell that to the General Petroleum Corporation.

Mr. Wilson: No more questions.

The Witness: We are trying to reduce inventory on natural gasoline.

The Court: Cross-examination?

Mr. Townsend: Yes, your Honor.

(Testimony of L. L. Aubert.)

Cross-Examination

By Mr. Townsend:

Q. Mr. Aubert, could you generally describe the business of the Bankline Oil Company over the years; say, from a few years prior to this 1952 transaction, through the present day, as to just what exactly is your business?

A. Well, it is producing. It was prior to 1952, August of 1952, it was strictly a producing oil company, with manufacturing natural gasoline plant at Signal Hill.

Q. Did you have any other plants similar to the one that you had in Signal Hill?

A. Now, we have got to fix a date here, because, on August 1, 1952, Bankline Oil Company and the Norwalk Company merged, and Bankline became the successor company.

Q. What was that date?

A. August 1, 1952; so, subsequent to August 1, 1952, Bankline had its producing properties, three natural gasoline plants, one at Signal Hill, one at Santa Fe Springs, and one at Maricopa in Kern County, a refinery, and so on.

Q. Then, after the negotiations with Signal in 1952, there were two left?

A. There were two; that's right.

Q. Tell me, Mr. Aubert, what would happen, during the period of your business, to the natural gasoline that would be processed?

(Testimony of L. L. Aubert.)

A. I don't quite get your question now.

Q. In other words, you process this gasoline; that was one phase of your business, is that correct? A. Yes.

Q. Did you do anything else other than that? Were there any other phases of your business?

A. As far as this natural gasoline is concerned?

Q. Yes.

A. We just processed it, and used it in our refining operations.

Q. Well, now, that is what I would like to have you describe. Would you go from the processing through the refining operations, please?

A. Well, it is a bit involved, but——

Q. Make it so a layman would understand it.

A. All right.

We would handle most of that through exchanges. In other words, we do not use Signal Hill gasoline in our refinery operations at Bakersfield, but we deliver natural gasoline to Standard Oil Company and take back natural gasoline from Standard Oil Company in the Bakersfield area.

Q. Your refinery was located in Bakersfield?

A. That's right.

Q. Did you have any other refineries besides the Bakersfield one?

A. In 1952, no. We had an old abandoned plant at Maricopa.

Q. You said 1952, no. At any other time did you have more than one refinery?

A. No; only one refinery.

(Testimony of L. L. Aubert.)

Q. Then, you had an exchange agreement with Standard Oil Company, in which Standard would deliver natural gasoline to you in Bakersfield for your refinery? A. Yes.

Q. What would happen then, sir?

A. We would use it in blending operations, to make the finished motor fuel.

Q. Then what would happen to the finished motor fuel?

A. Sell it as finished motor fuel.

Q. Who would you sell it to, generally?

A. Through our own distribution.

Q. Do you have your own gas stations?

A. Our distributors do. We sell through distributors who have their stations, and they are Norwalk gasoline stations.

Q. So that Norwalk gasoline stations would sell the refined products from time to time?

A. That's right.

Q. That generally has been your business all along, going through the processing business, and then the refining business, and then, finally, sales to the general public? A. That's right.

Q. At service plants. Now, how long did you have this exchange agreement, or carry on this exchange procedure with the Standard Oil Company?

A. Oh, it is—it has been going on for quite some time. We are still carrying on exchanges with Standard and other companies.

Q. When you were processing the gas in the

(Testimony of L. L. Aubert.)

Signal Hill oil field, did you have an exchange agreement with Standard at that time?

A. Oh, yes.

Q. An exchange agreement; let me see if I can get the layman's description of that. Would that be that Standard Oil Company needed natural gasoline in Los Angeles, and that Bankline Oil Company needed gasoline in Bakersfield; now, you produced natural gasoline in Los Angeles, and Standard produced natural gasoline up around the Bakersfield area; and by exchanging like quantities, you merely eliminated the requirement of transporting your gasoline to Bakersfield, and Standard transporting their gasoline to Los Angeles?

A. That's right.

Q. After you sold your plant in Signal Hill to Signal Oil and Gas Company, how did you get your natural gasoline in Bakersfield?

A. The same way: We asked Signal if they could deliver the natural gasoline to Standard—I mean, we bought the gasoline from Signal, and then instructed Signal to deliver the natural gasoline to Standard for our account. Standard then delivered the natural gasoline to us in Bakersfield.

Q. Now, sir, is your refinery still in operation?

A. Yes.

Q. How is the natural gasoline delivered up there at the present time?

A. In the same manner.

Q. Standard Oil is delivering?

A. That is not this gasoline, no.

(Testimony of L. L. Aubert.)

Q. No, but Standard Oil is delivering natural gasoline under an exchange agreement?

A. Yes; they are, because they see our inventory backed up. In fact, it backed into Standard, and we are now withdrawing from inventory by taking natural gasoline which Standard now owes us, even though we are not delivering to them at this time.

Q. But your operations haven't changed in any way from 1950 through the present time, as far as the deliveries are concerned and the sale to the public of your finished products?

A. That's right.

Q. You have testified concerning the termination of the contract under which Bankline acquired all the natural gasoline produced by Signal?

A. Yes.

Q. I was interested by the fact that that contract was terminated less than two months prior to the trial, and just nine days after the Government's proposed stipulation of facts in this case was mailed in September to your representative, and that stipulation indicated the Government's theory with respect to that contract.

Now, is it mere coincidence that those dates are so close? A. It is, absolutely.

Q. Under these leases that you had with these oil producers, was there a separate meter for each one of those leases? A. Yes.

Q. Bankline would read those meters and keep track of those meters? A. Yes.

(Testimony of L. L. Aubert.)

Q. After your contract with Signal in 1952, those meters were still in operation, were they not?

A. Right.

Q. But there was only one meter between Bankline and Signal, is that correct?

A. That's correct.

Q. Who handled the separate metering after this contract with Signal Oil and Gas Company—

A. Bankline still handled the separate metering from the various leases, and checked with Signal on the total delivery through the one meter.

Q. Do you know whether there are any extensions on the \$85,000 note that Signal gave to you on November 1 of '52?

A. Any extensions?

Q. Any extensions.

A. Of what? Time, or what?

Q. Of time.

A. No. I think it was all paid up as stipulated.

Mr. Townsend: I have no further questions.

The Court: Anything further?

Mr. Wilson: Nothing.

The Court: You may step down.

(Witness excused.)

The Court: I think we will take about a ten-minute recess.

(Short recess.)

The Court: Proceed, gentlemen.

Mr. Wilson: If the Court please, my attention was called to an apparent contradiction by Mr.

Green in one place where he testified that the quality of this wet gas was 8 or 9 gallons per thousand cubic feet, and, later on, that it was 8 or 9 thousand gallons per thousand cubic feet. May we stipulate that it is 8 or 9, that figure is correct, rather than 8 thousand or 9 thousand?

Mr. Townsend: So stipulated.

The Court: All right.

Mr. Wilson: Could we introduce by stipulation a copy of the Revenue Agent's report in this case, dated January 13, 1955, and then I would like to withdraw it, and have a copy made for myself. This is the only copy I have.

Mr. Townsend: Your Honor, I have no objection. This is an authentic report, but I do not see the materiality.

Mr. Wilson: The only purpose, and I do not want to be bound by it, is to show that the Government's case, that it was in theory outlined on January 13, 1955, to Petitioner.

The Court: I am sorry, but I did not hear you.

Mr. Wilson: My only purpose is to show that the Government's theory of this case was outlined to us not a month ago, but on January 13, 1955, when they issued their Revenue Agent's report.

The Court: Do you have any objection for that purpose?

Mr. Townsend: No, your Honor, I have no objection.

The Court: It may be received.

The Clerk: That is Exhibit 14.

(Petitioner's Exhibit No. 14 was marked for identification and was received in evidence.)

Mr. Wilson: Mr. Wegfors, please. [46]

R. O. WEGFORS

was called as a witness by and on behalf of the Petitioner, and, having been first duly sworn, was examined and testified as follows:

The Court: Do you think we will be able to conclude this case this morning?

Mr. Wilson: I would just about think so, unless there is considerable cross-examination or Government evidence.

Mr. Townsend: I would estimate so.

The Clerk: Be seated and state your name and address for the record.

The Witness: R. O. Wegfors, W-e-g-f-o-r-s.

Direct Examination

By Mr. Wilson:

Q. What is your occupation, Mr. Wegfors?

A. I am the treasurer of Signal Oil and Gas Company.

The Clerk: Your address, sir?

The Witness: 811 West 7th Street, Los Angeles.

Q. (By Mr. Wilson): Did you have that position in the fall of 1952? A. I did.

Q. What is your technical training?

A. I am a public accountant. I started with

(Testimony of R. O. Wegfors.)

Haskins & Sells in 1928, was in their employ for eight years, when I became an employee of Signal Oil and Gas Company. I have been treasurer since 1945.

Q. As treasurer of Signal Oil and Gas Company, are you generally familiar with its records?

A. Yes; I am.

Q. I show you this stipulation, 8-B, called "Wet Gas Royalty Statement," and ask you to explain that statement to the Court, if you will?

A. May I say, first, that the gas statement is one that is usually used in the ordinary case where we have a contract with an oil producer. It is adapted for that purpose. We used it instead of—in the Bankline case, rather than to print up a special form.

This indicates that the royalty portion for this particular month at 100 per cent was \$197,076, and that the weighted average price per gallon was .07-plus, and the royalty value was \$13,842. This pertains to the gasoline.

Q. In your opinion, does that statement correctly reflect the transactions that occurred under these contracts that are in the stipulation?

Mr. Townsend: Respondent objects on the grounds that it calls for a conclusion from this witness on that issue, to be decided by the Court.

The Court: Will you read the question again?

(Record read.)

(Testimony of R. O. Wegfors.)

Mr. Townsend: May I ask something, your Honor? I think this witness, as an accountant, undoubtedly an expert accountant, could testify whether these records indicate that a sale took place, or a sale did not take place, but I do not think he should be able to testify as to whether these records are correct or not.

The Court: The difficulty with the question asked is that it not only asks his opinion as an accountant, but asks him to construe the contracts.

I will sustain the objection on that basis.

Q. (By Mr. Wilson): Had you noticed this wet gas royalty statement here used with the Hancock deal prior to recently?

A. Would you ask that again, please?

Q. When did you first notice the formal statement that was made to Bankline Oil Company in connection with these contracts that are in evidence?

A. At the time that we became involved in this case. That would be in 1955.

Q. Will you tell the Court where this average price per gallon of .07236975 comes from?

A. Yes; that is the result of taking the average price of the gasoline at that time, and deducting from it the amount called for by the contract, to arrive at the amount that was due Bankline Oil Company.

Q. Can you tell from Exhibits 8-A or -B what the price of natural gasoline was in December of 1954?

A. 8-A or -B?

(Testimony of R. O. Wegfors.)

Q. Yes. A is the first sheet. It is the journal voucher.

A. Yes. According to this record, the price was, of the natural gasoline, was 10 cents, 28 and propane, .0441996 cents.

Q. Do you think that this wet gas royalty statement, Exhibit 8-B, depicts the transaction in the most accurate form?

Mr. Townsend: Object, your Honor. It is another way of asking the same question.

The Court: No; apparently what is asked for is whether or not the exhibit depicts what occurred, what actually occurred, in an accurate form, or most accurate form, from a bookkeeping standpoint.

I will let him answer that question.

The Witness: Would you state the question again?

(Question read.)

A. I would say that it depicts it in an accurate form. The statement is not complete in itself. The computation of the weight and average price per gallon was made on a separate sheet and furnished to Bankline. Other than that, I would say that it is accurate and adequate.

Mr. Wilson: I have no more questions to ask.

The Court: Cross-examine.

(Testimony of R. O. Wegfors.)

Cross-Examination

By Mr. Townsend:

Q. Mr. Wegfors, referring again to the weighted average price per gallon on Exhibit 8-B, .070236975, and directing your attention to Exhibit 8-A, that weighted average price per gallon is the result of deducting what is called processing charge, .032562025, from the present price of .1028, is it not?

A. That is correct.

Q. Mr. Wegfors, the \$85,000 payment represented by a note, was that note paid timely, sir?

A. It was paid timely by Signal, yes.

Q. How was that \$85,000 payment handled on the books of Signal Oil and Gas Company?

A. It was handled as a charge to the capital asset account, titled—I don't know the exact title, but it would be the property account, natural gasoline contracts.

Q. That payment was amortized over a period of time, Mr. Wegfors?

A. That's correct.

Q. Could you tell me generally the rate of amortization?

A. Well, it was amortized on a basis of production. We estimated the number of thousands of cubic feet of wet gas in the properties involved, and that was divided into the \$85,000 to arrive at a unit price, and that unit price was multiplied by the number of thousand cubic feet produced

(Testimony of R. O. Wegfors.)

each year, and the resultant figure was the amortization.

Q. Could you tell me approximately how much of that figure has been written off as of today?

A. I would say all but about \$20,000 or \$25,000.

Q. How did you arrive at the market price of propane?

A. That was the average price that Signal received for the propane when it was sold to its customers.

Q. That would not be set as the natural gasoline by standard prices?

A. Not ordinarily, no.

Mr. Townsend: No further questions.

Redirect Examination

By Mr. Wilson:

Q. Mr. Wegfors, I believe that Mr. Green was not sure whether Signal's retention, under Exhibit No. 3, for propane remained at 11¼ cents, or varied with the price of natural gasoline. Could you cover that?

A. Yes. It varied; well, I might put it this way: There was an escalation feature to the contract. In other words—I am not thoroughly familiar with it; I think Mr. Gifford could give you more information on that—there was an escalation, and it did go up in accordance with the rise in price of probably natural gasoline.

Mr. Wilson: That is all.

The Court: You may step down.

(Testimony of R. O. Wegfors.)

Mr. Townsend: I have one question.

The Court: Just a minute.

Recross-Examination

By Mr. Townsend:

Q. There are two pages connected to Exhibit 8-A, are there? In other words, Exhibit 8-A comprises three pages. Could you tell me what the second and third page of that Exhibit 8-A is, please, if you know?

A. Well, I don't know of my own knowledge. It evidently was prepared by the Bankline Oil Company, and we had nothing to do with its preparation.

Mr. Townsend: Thank you. No further questions.

(Witness excused.)

Mr. Wilson: Mr. Harrell, please.

VERNE HARRELL

was called as a witness by and on behalf of the Petitioner, and, having been first duly sworn, was examined and testified as follows:

The Clerk: Please be seated.

Direct Examination

By Mr. Wilson:

Q. Please state your name and occupation, and address.

A. My name is Verne Harrell, and I am a vice-

(Testimony of Verne Harrell.)

president, and treasurer of Bankline Oil Company. My address is 437 South Hill Street, Los Angeles, for business address; my home address is 541 West Stocker, Glendale.

Q. What was your occupation in the fall of 1952?

A. In the fall of 1952, I was not treasurer of Bankline, but I was vice-president, and I was in charge of the accounts and records of the company.

Q. I will show you Exhibit 8-A, called "Journal Voucher, Bankline Oil Company, December, 1954," and ask if you determined the manner in which that journal voucher was to be made?

A. I did.

Q. Were you advised in doing that; were you advised by any CPA or counsel?

A. I was not.

Q. Is that journal voucher similar in general form to the one that Bankline uses, has used in the months since 1952 to November, 1952?

A. Yes, it is.

Q. Prior to determining upon the form of that journal voucher, had you examined the contracts which now appear in this case as Exhibits 1 and 3?

A. I have not examined those.

Q. What did you use as the basis for determining the form of that voucher?

A. Mr. L. Aubert, president of Bankline, informed me that Bankline had sold its Elwood properties, its Signal Hill plant, and its gas processing contracts for the Signal Hill field, to Signal Oil

(Testimony of Verne Harrell.)

and Gas Company; that, effective on November 1, 1952, Bankline would discontinue the operation of their Signal Hill gasoline plant, and that the wet gas formerly treated in our Signal Hill gas plant would be treated by Signal Oil and Gas Company, but that the obligation to pay the producer's royalty share of gasoline and propane would continue to be with Bankline.

Q. On that journal voucher you have "processing charges from others." What does that mean?

A. That was the difference between the gross amount of natural gasoline and propane, dry sales, dry gas sales, and the amount that we were to receive from Signal, had we not had the obligation to pay the producers, we probably would not have set this entry up in this manner at all, but we set it up in this manner in order to account for the gross proceeds or gross value of the gasoline, propane, and dry gas, in order to compute the royalty share due the producers.

Mr. Wilson: No more questions.

Cross-Examination

By Mr. Townsend:

Q. Mr. Harrell, are you a certified public accountant? A. Yes; I am.

Q. Were you in 1952? A. Yes, sir.

Q. Directing your attention to the second and third pages there of Exhibit 8-A, would you describe generally what those are, please?

(Testimony of Verne Harrell.)

A. Well, these are, appear to be figures, appears to be a copy of a royalty computation statement.

Q. Who made those computations, Mr. Harrell?

A. I don't recognize his handwriting. This is a photostat. I don't recognize the handwriting on it.

Q. They are records of Bankline Oil Company?

A. They would appear to be taken from the records of Bankline Oil Company.

Q. Bankline Oil Company made the computations of royalties? A. Yes; they did.

Q. Those are the royalties to be paid the oil producers under the contracts which are called here in Exhibit 2, that is, with the General Petroleum Corporation, the Jet Oil Company, et cetera?

A. Yes.

Q. They are based on a meter reading with the individual leases? A. That's correct.

Q. The \$85,000 payment received by Bankline was reported as capital gain, was it not?

A. Yes, sir; it was.

Q. Would you please indicate on Exhibit 6 where that amount is reported?

A. Well, the total amount of \$135,000 only is shown here. It isn't broken down. This is a tax schedule attached to a tax return, and there isn't any breakdown of the item as to the \$85,000 in the tax return.

Q. That is contained on a page, a schedule called "Other Income Per Return," Line 14, Page 1 of return, is that correct, sir?

(Testimony of Verne Harrell.)

A. It is included on the page that carries that heading.

Q. I was just identifying it for the record, Mr. Harrell.

Now, the payments received by Bankline in addition to this \$85,000 payment, and these are the continuing payments that are referred to that started in 1952 and are still going on, they were reported as ordinary income in 1952, and thereafter by the Bankline Oil Company?

A. That's correct.

Q. Would you please indicate on the return, Exhibit 6, where those amounts are contained?

A. They are contained on Schedule A, attached to the return.

Q. Are they identified as specifically, Mr. Harrell?

A. They are in an item here that is labeled, "Income From Absorption Plants," but there is no breakdown as to plants in here that I see.

Mr. Townsend: No further questions.

Mr. Wilson: No further questions.

The Court: You may step down.

(Witness excused.)

Mr. Wilson: Mr. McCormick, please.

This is our last witness, if your Honor please.

JOHN C. McCORMICK

was called as a witness by and on behalf of the Petitioner, and, having been first duly sworn, was examined and testified as follows:

The Clerk: Would you be seated, please?

Direct Examination

By Mr. Wilson:

Q. Please state your name and occupation and address.

A. John C. McCormick, 523 West Sixth Street, Los Angeles, California. I am a certified public accountant.

Q. Are you associated with an accounting firm?

A. I am a partner with Haskins & Sells.

Q. What is your experience in accounting for oil companies?

A. Well, I handle a great many of the clients of our office who are engaged in the oil business.

Q. Has that gone on for some years?

A. Yes; it has.

Q. Have you examined the stipulation that has been filed in this case?

A. I have.

Q. Including contracts, Exhibits 1 and 3, and 8 and 9 and 10? I would like to call your attention particularly to Exhibit 8-A, which is a journal voucher of Bankline Oil Company for the month of December, 1954. Mr. McCormick, assuming that the exhibits in this stipulation, other than Exhibits 8-A and -B, depict the substance of the agreement between Bankline Oil Company and Signal Oil and

(Testimony of John C. McCormick.)

Gas Company of the subject matter covered by Exhibit 3, does Exhibit 8-A, in your opinion, correctly reflect the operations covered by Exhibit 3?

Mr. Townsend: Respondent object, your Honor. I think that is calling on this witness for a legal opinion, as well as an accounting opinion.

Mr. Wilson: If your Honor please, may I respond a little bit to that? We have stipulated the accounting records that Bankline used, which, in itself, constitutes the characterization of these contracts made by a human being, one of the officers of the company. I think we should be permitted to show that that is erroneous.

The Court: No. You could show from this witness, first, what he understands the contracts indicate. Then you can ask him the question you have just asked.

Mr. Wilson: Thank you.

Q. (By Mr. Wilson): Mr. McCormick, what is your understanding of the transaction recorded by this Exhibit 8-A?

A. Would you repeat that?

Q. What does Exhibit 8-A say to you; what kind of a transaction does it describe?

A. Well, Exhibit 8-A would appear to me that Bankline has sold natural gasoline and propane and dry gas to Signal.

Q. Does it indicate that the production of that gasoline was Bankline's? A. Yes, it would.

Q. Does it indicate that Signal was doing the actual processing work for Bankline for a charge?

(Testimony of John C. McCormick.)

A. It would.

Q. Now I would like to again ask you this question:

Assuming that the exhibits other than Exhibits 8-A and -B—namely, 1 and 3 and 9 and 10—depict the substance of the agreements between Bankline and Signal under subject matter covered by Exhibit 3; do you think that this Exhibit 8-A correctly reflects those operations?

Mr. Townsend: Your Honor, Respondent objects. He is asking him to interpret the legal effect of the contracts, Exhibits 1 and 3, and those other contracts.

The Court: I think counsel misunderstood me, possibly, my former ruling. My suggestion was that if the witness preliminarily would state what his understanding of the agreement was, as depicted by the contract, then he could be asked this question.

Q. (By Mr. Wilson): Now, Mr. McCormick, do you understand from Exhibit 3, particularly, and 9 and 10, that—how do you interpret those contracts?

A. Well, Exhibit 3 states that Signal Oil and Gas offers to pay for the above-described properties the sum of \$85,000, plus further sums of money calculated in the following manner; and then the next paragraph states how those sums shall be calculated.

Now, looking at the contract, it is rather clear and simple a contract, and I would say that a sale had been made of the gasoline contracts to Signal

(Testimony of John C. McCormick.)

Oil and Gas, and that Bankline was to receive \$85,000, plus certain other sums as specified in the contract.

Q. Then, with that understanding of that contract, would you say that this journal voucher, 8-A, which appears to say that Bankline is continuing to produce the gas under the casing-head gas contracts, is correct?

A. No; I would say it is not correct.

Q. Have you drawn a journal entry or entries which, in your opinion, would correctly reflect the contract, Exhibits 3 and 9 and 10?

A. Yes; I have.

Q. Do you have an extra copy that I can give counsel?

Would you describe what you think is the correct entry for this transaction?

A. My first entry would be to record on Bankline's books the amounts receivable from Signal Oil and Gas under the contract.

Mr. Townsend: Pardon me. Your Honor, Respondent objects to this testimony. I assume it is a proposed exhibit here, and it has no probative value. This witness is not testifying as to any facts. He is testifying as to what he would have done if the circumstances were, in his opinion, different from the accountant who made up these entries.

The Court: Would you care to be heard on that objection?

Mr. Wilson: I do not think it is too important. He said he thought the entries were erroneous, and

(Testimony of John C. McCormick.)

I do not think we can too much determine what the correct entry would be.

The Court: I will sustain the objection.

Mr. Wilson: I think that is all.

The Court: Cross-examine.

Cross-Examination

By Mr. Townsend:

Q. Mr. McCormick, when did you first see this contract, Exhibit 3?

A. It is very recently that I have seen Exhibit 3.

Q. How recent, sir?

A. Well, I would say about a week or ten days ago.

Q. Where did you acquire your understanding of the effect of Exhibit 3?

A. Well, I read the contract over, and that was looking at the contract itself, why, that would be my understanding of it. It is not different in understanding than I would have if I came in and made an audit of the company's books, and came across such a contract as this, and the entries recording it in the accounts.

Q. Have you ever before seen a contract just like this one?

A. No; not exactly just like this one.

Q. Or anything very close to this one?

A. Well, I don't know just what you mean by "very close." I have seen short contracts, of this short, simple contract.

(Testimony of John C. McCormick.)

Q. Have you ever seen a contract in the oil and gas field where prices were set up that way, and amounts were going back and forth, as they have in this case?

The Court: Mr. Townsend, you understand that the witness' preliminary answer on direct can have no probative value whatsoever relative to the construal of the contract?

Mr. Townsend: Yes, your Honor; I am probably belaboring the point.

Mr. Wilson: If the Court please, may we mark these journal entries for identification?

The Court: You mean the pages you were about to offer?

Mr. Wilson: Yes.

The Court: Yes; they may be marked.

The Clerk: Exhibit 15, for identification.

(Petitioner's Exhibit No. 15 was marked for identification.)

Mr. Wilson: Petitioner rests, your Honor.

The Court: I understand you offer Exhibit 15 in evidence?

Mr. Wilson: Yes, your Honor.

The Court: I will sustain the objection previously made.

Do you have any other testimony to offer?

Mr. Wilson: No.

The Court: Do you have any testimony to offer?

Mr. Townsend: No, your Honor.

(Witness excused.)

The Court: I will set 60 and 30 days for simultaneous briefs in this case.

Mr. Clerk, you will state the dates.

The Clerk: The dates are: For original, on or before January 24; and reply briefs, on or before February 24, 1958.

The Court: The Court will recess at this time until 1:00 o'clock.

(Whereupon, the hearing in the above-entitled petition was closed.)

Filed December 13, 1957, T.C.U.S.

[Title of Tax Court and Cause.]

CERTIFICATE

I, Howard P. Locke, Clerk of the Tax Court of the United States, do hereby certify that the foregoing documents, 1 to 12, inclusive, constitute and are all of the original papers on file in my office as called for by the "Designation of Portions of Record Desired on the Appeal," and the "Designation of Additional Portion of Record," including Exhibits 1 through 10, attached to the stipulation of facts, and petitioner's Exhibits 11 through 14, admitted in evidence, in the case before the Tax Court of the United States docketed at the above number and in which the petitioner in the Tax Court has filed a petition for review as above numbered and entitled, together with a true copy of the

docket entries in said Tax Court case, as the same appear in the official docket in my office.

In testimony whereof, I hereunto set my hand and affix the seal of the Tax Court of the United States, at Washington, in the District of Columbia, this 16th day of September, 1958.

[Seal] /s/ HOWARD P. LOCKE,
Clerk, Tax Court of the
United States.

[Endorsed]: No. 16201. United States Court of Appeals for the Ninth Circuit. Bankline Oil Company, Petitioner, vs. Commissioner of Internal Revenue, Respondent. Transcript of the Record. Petition to Review a Decision of The Tax Court of the United States.

Filed: September 26, 1958.

Docketed: September 30, 1958.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the
Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

Docket No. 16201

BANKLINE OIL COMPANY,
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

STATEMENT OF POINTS ON WHICH
PETITIONER INTENDS TO RELY

To: The Honorable Clerk of the United States Court
of Appeals for the Ninth Circuit:

Petitioner adopts as its points on appeal the
assignments of error or statement of points upon
which it intends to rely, which were included in the
petition for review within the transcript of record.

Dated: September 12, 1958.

MELVIN D. WILSON,
MELVIN H. WILSON,

By /s/ MELVIN D. WILSON,
Attorneys for Petitioner.

Receipt of copy acknowledged.

[Endorsed]: Filed October 7, 1958.

